BUDGET

OF THE U.S. GOVERNMENT

FISCAL YEAR 2008

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OFFICE OF MANAGEMENT AND BUDGET

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EXECUTIVE OFFICE OF THE PRESIDENT OF THE UNITED STATES
OFFICE OF MANAGEMENT AND BUDGET

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 2008

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2008 contains the Budget Message of the President, information on the President's priorities, and budget overviews organized by agency.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations.

The *Analytical Perspectives* volume also contains a CD-ROM with several detailed tables, including tables showing the budget by agency and account and by function, subfunction, and program.

Historical Tables, Budget of the United States Government, Fiscal Year 2008 provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment over an extended time period, generally from 1940 or earlier to 2008 or 2012. To the extent feasible, the data have been adjusted to provide consistency with the 2008 Budget and to provide comparability over time.

Appendix, Budget of the United States Government, Fiscal Year 2008 contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; explanations of the work to be performed and the funds needed; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose outlays are not part of the budget totals.

AUTOMATED SOURCES OF BUDGET INFORMATION

The information contained in these documents is available in electronic format from the following sources:

Budget CD-ROM. The CD-ROM contains all of the budget documents in fully indexed PDF format along with the software required for viewing the documents. The CD-ROM has many of the budget tables in spreadsheet format. The budget CD-ROM also contains the material on the separate *Analytical Perspectives* CD-ROM.

Internet. All budget documents, including documents that are released at a future date, will be available for downloading in several formats from the Internet. To access these documents use the following address:

www.budget.gov/budget

For more information on access to electronic versions of the budget documents (except CD-ROMs), call (202) 512–1530 in the D.C. area or toll-free (888) 293–6498. To purchase the budget CD-ROM or printed documents call (202) 512–1800.

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.
3. At the time of this writing, only two of the appropriations bills for 2007 had been enacted; therefore, the programs provided for in the remaining 2007 appropriations bills were operating under a continuing resolution (P.L. 109–289, Division B, as amended). For these programs, references to 2007 spending in the text and tables reflect the levels provided by the continuing resolution.

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THE BUDGET MESSAGE OF THE PRESIDENT

America is a country of opportunity. Throughout our history, we have overcome great challenges by drawing on the strength, creativity, and resolve of the American people. We have adapted to change—while maintaining our commitment to freedom and an open economy.

Our economy is strong and growing, Federal revenues are robust, and we have made significant progress in reducing the deficit. The Budget I am presenting achieves balance by 2012. My formula for a balanced budget reflects the priorities of our country at this moment in its history: protecting the homeland and fighting terrorism, keeping the economy strong with low taxes, and keeping spending under control while making Federal programs more effective.

As Commander in Chief, my highest priority is the security of our Nation. My Budget invests substantial resources to fight the Global War on Terror, and ensure our homeland is protected from those who would do us harm. We will transform our military to meet the new threats of the 21st Century and provide the brave men and women on the front lines with the resources they need to be successful in this decisive ideological struggle. The Budget will support a new strategy in Iraq that demands more from Iraq's elected government, and gives American forces in Iraq the reinforcements they need to complete their mission. And it will continue to provide the tools necessary to keep America safe by detecting, disrupting, and dismantling terrorist plots.

The U.S. economy is strong. Since August 2003, 7.2 million jobs have been created. Unemployment is low. Wages are growing. Productivity is strong. Inflation and interest rates are low. And we have seen tremendous progress despite a series of challenges, including recession, the terrorist attacks of 2001, corporate scandals, the costliest natural disaster in our Nation's history, energy price spikes, and a temporary slowdown in the housing sector. The resilience of our economy is a tribute to America's workers and entrepreneurs. And well-timed, pro-growth tax policies helped create the right climate for innovation and entrepreneurship.

The Federal deficit is declining and on a path to elimination. Last year, we successfully met our goal of cutting the deficit in half, three years ahead of schedule. This occurred because tax relief helped the economy to recover and grow, resulting in record-high revenues while we restrained non-security discretionary spending. With continued strong economic growth and spending discipline, we are now positioned to balance the budget by 2012, while providing for our national security and making tax relief permanent.

My Budget proposes to keep non-security discretionary spending below inflation for the next five years. My Budget also reforms projects and spending that don't get the job done. We need lawmakers'support to help us accomplish this goal—including reforms that will improve the Congressional budget process.

To bolster public confidence in the Government's ability to manage taxpayers' money successfully, Congress should adopt earmark reform. The earmark process should be made more transparent, ending the practice of concealing earmarks in so-called report language never included in legislation. The number and cost of earmarks should be cut by at least half by the end of this session. I have also called on Congress to adopt the legislative line-item veto, which gives the Legislative and Executive Branches a tool to help eliminate wasteful spending. These common-sense reforms will help prevent billions of taxpayers' dollars from being spent on unnecessary and unjustified projects.

To keep this economy strong we must take on the challenge of entitlements. Social Security, Medicare, and Medicaid are commitments of conscience, and so it is our duty to keep them permanently sound. If we do not address this challenge, we will one day leave our children with three bad options: huge tax increases, huge deficits, or huge and immediate cuts in benefits.

In the short term, my Budget works to slow the rate of growth of these programs, saving $96 billion over five years. This Administration is also actively working with Congress to comprehensively reform and improve these vital programs so they will be strong for the next generations of Americans.

I am optimistic about the future of our country. We are an entrepreneurial and hard-working Nation. And while we face great challenges, we enjoy great opportunities. This Budget reflects our highest priorities while reducing the deficit and achieving a balanced budget by 2012. I am confident that this approach will help make our country more secure and more prosperous.

George W. Bush
February 5, 2007

OVERVIEW OF THE PRESIDENT'S 2008 BUDGET

Highlights of the President's Budget

- Reduces the deficit every year and balances the budget by 2012;
- Increases funding to combat terrorism and protect the homeland;
- Keeps the economy strong with low taxes;
- Promotes key domestic priorities, such as No Child Left Behind, enhanced energy security, and improved access to affordable health care;
- Spends taxpayer dollars wisely, holding the growth in non-security discretionary spending to one percent; and
- Slows the unsustainable growth of entitlement spending with sensible reforms.

The President's Budget reduces the deficit every year and reaches a balanced budget within five years, while continuing to invest in the Nation's safety and prosperity. Critical to continued deficit reduction is a strong economy. To keep the economy vibrant, the Budget makes tax relief permanent, and proposes other pro-growth policies to improve education, health care, and energy security.

National Security

The 2008 Budget supports our troops fighting terrorism abroad, strengthens our military for the future, enhances our international diplomacy, and protects our homeland from attack.

The Budget invests substantial resources to maintain high levels of military readiness and to continue the transformation of our military to meet the new threats of the 21st Century. It also fully funds the Global War on Terror in Iraq and Afghanistan through 2008, provides additional funds for 2009, and fully funds the implementation of the President's new strategy in Iraq. The Budget supports the U.S. strategic goal of an Iraq and Afghanistan that are democratic, can govern, defend and sustain themselves, and that will be allies in the war on terror.

Enhanced diplomatic efforts will work to support our national security goals with additional resources dedicated to strengthen democratic institutions, promote economic opportunity, and improve self-sufficiency while also building the capacity of our allies to contribute to this effort, through key anti-terrorism and security assistance initiatives.

The Budget also invests in homeland security and terrorism prevention through increased funding for nuclear detection, more secure borders, high-tech screening capabilities, and forging a closer partnership with State and local law enforcement.

Economic Growth

The 2008 Budget advances initiatives designed to continue our strong economic growth and prosperity. As we enter 2007, the economic fundamentals are strong: more than seven million jobs have been created since August 2003; unemployment is low; paychecks are rising; and inflation and interest rates are low. Over the past six years, our resilient economy has successfully weathered many difficult challenges, including the recession in 2001, corporate scandals, the September 11th terrorist attacks, the devastation of Hurricane Katrina, surges in energy prices, and weakness in the housing sector.

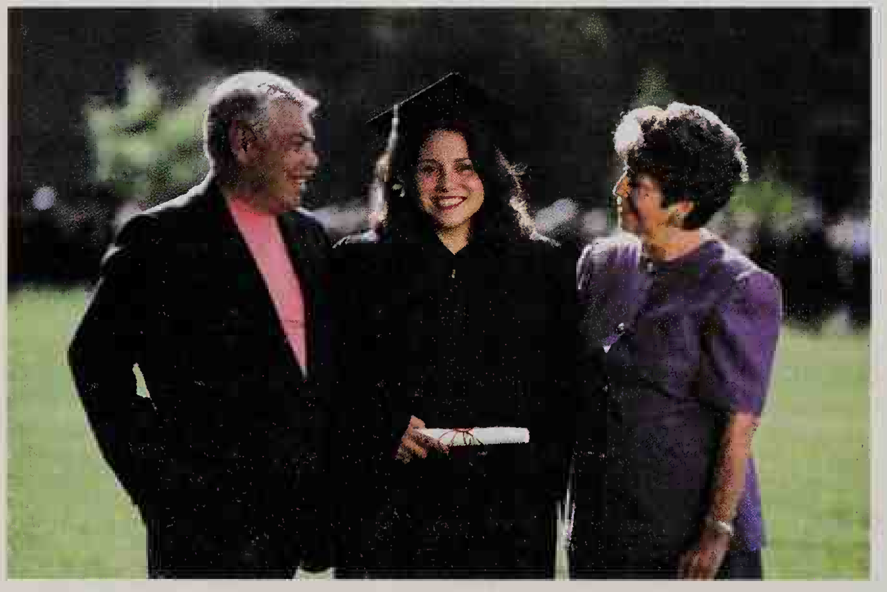
The economy's ability to persevere and overcome these challenges is a testament to the strong work ethic and ingenuity of the American people, and to the effectiveness of the President's pro-growth economic policies, including tax relief.

The 2008 Budget continues to support a strong economy, innovation, and investment by making permanent the President's tax relief, which would otherwise expire in 2010. With the full implementation of tax relief in 2003, the economy strengthened and Federal revenues surged. For the past two years, revenues have grown at double-digit rates, and are now above the 40-year historical average as a share of the economy.

Proposals contained in this Budget will also strengthen our ability to compete in the global economy. They will advance the American Competitiveness Initiative to increase Federal investment in critical basic research, ensure the United States continues to lead the world in innovation, and provide American children with a stronger foundation in math and science. They will also promote the continued opening of new export markets for American farmers, manufacturers, and service providers.

Prioritizing Education, Health Care, and Energy

The 2008 Budget addresses three key issues that are on the minds of many Americans: the quality and cost of their children's education, access to affordable health care, and our Nation's dependence on foreign sources of energy from unstable parts of the world.



Regarding our schools, No Child Left Behind (NCLB) is already working to ensure all students perform at or above grade level in reading and math by 2014. NCLB is raising student achievement for millions of children in schools nationwide. The 2008 Budget provides significant new resources and other reforms that will result in continued progress. It also directs more funding to high schools to better prepare our students for college or the workplace, and offers new school choice options so children in low-performing schools have a chance to attend a school where they can learn and succeed. To help low-income families afford college, the 2008 Budget increases the Pell Grant maximum award from the current level of $4,050 to $4,600 in 2008, and to $5,400 over the next five years. It also increases the Academic Competitiveness Grants maximum awards for freshmen and sophomores.

The 2008 Budget also improves Americans' access to affordable health care through a number of proposals. It proposes a significant change in the tax treatment of health care, which will level the playing field for Americans who purchase health care individually rather than through their employers. This will reduce the number of uninsured Americans by making health insurance more affordable and helping to restrain the rate of health care inflation. The Budget also improves access to health care by allowing small businesses and civic and community groups to band together to leverage their bargaining power, and it helps reduce frivolous lawsuits that increase patients' costs.

The Budget includes a number of proposals to increase our energy security while improving our environment. The President is extending the commitments he made in signing the Energy Policy Act of 2005 and the 2006 State of the Union address to increase our energy security, improve air quality, and address greenhouse gas emissions. Specifically, the President is proposing to increase the current standards for alternative fuels use and for fuel economy in order to cut, by 2017, our domestic gasoline consumption by 20 percent and substantially reduce vehicle air pollution and CO_2 emissions compared to projections.

The Budget also continues the Advanced Energy Initiative to improve the reliability of energy supplies to American families and businesses. This initiative includes incentives to increase the use of alternative fuels for transportation and power generation. It also supports conservation efforts and advanced nuclear power, increases oil and natural gas supplies at home, and expands refinery capacity. To insure against major supply disruptions that could harm our economy, the Budget proposes to double the protection provided by the Strategic Petroleum Reserve by expanding the reserve to 1.5 billion barrels by 2027.

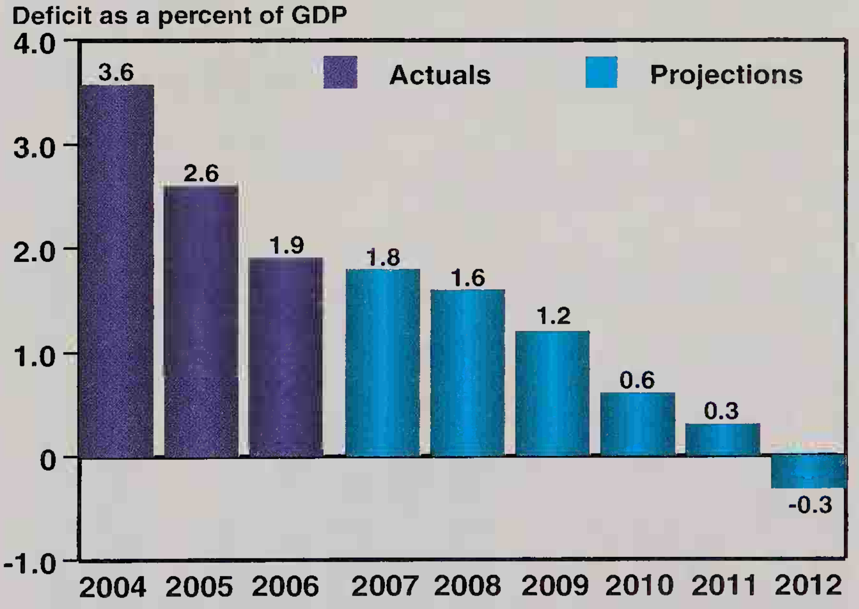
Budget Discipline

A strong economy and significant revenue growth, combined with better spending restraint, resulted in cutting the deficit in half in 2006—three years ahead of the goal set forth by the President in 2004. Building on this success, the President has now set a new goal to achieve a balanced budget by 2012. A strong economy has been essential to our deficit reduction achievements, and to reach a balanced budget, steady economic growth is important. But it is also important to couple growth with spending discipline.

The 2008 Budget proposes to hold the rate of growth for non-security discretionary spending to one percent, well below the rate of inflation. That requires tough choices among many competing priorities.

In the Budget, each program was closely reviewed to determine if it is among the Nation's top priorities and if the program is effective and producing the intended results. Failure to meet these criteria resulted in the proposed termination or reduction of 141 programs for a savings of $12.0 billion, a step that will help channel resources to more effective programs. We have also increased resources for program integrity efforts to reduce waste, fraud, and abuse—including improper payments to ineligible recipients.

Balancing the Budget

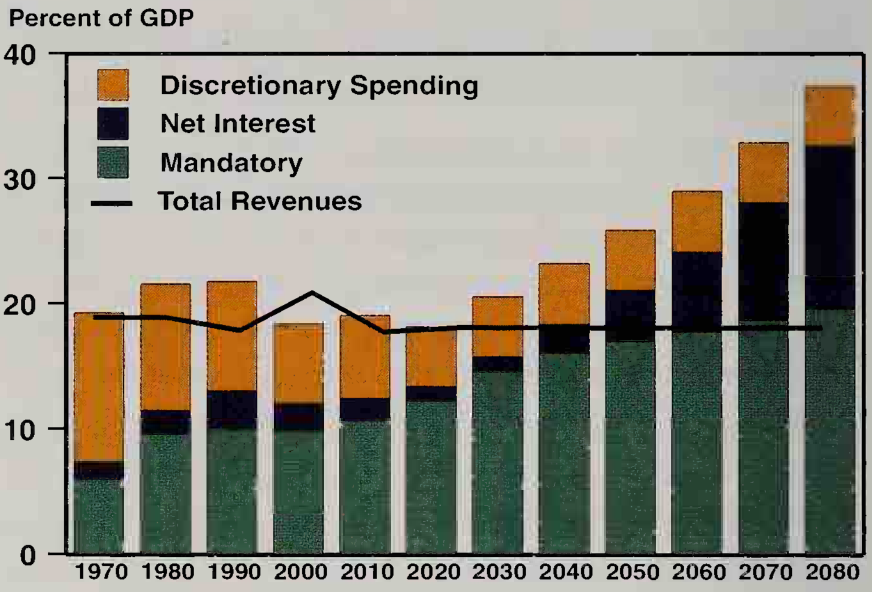


The President's 2008 Budget also outlines a comprehensive series of budget reforms that will improve transparency and accountability in Government spending, including earmark reform. Earmarks are provisions included in legislation that are often not subject to adequate legislative or public scrutiny and that often lead to wasteful Federal spending. They have grown dramatically, nearly tripling in the last decade. The President has called for full disclosure of all earmarks, prohibiting earmarks from being slipped into so-called report language instead of actual legislation, and cutting the number and amount of earmarks by half. The President has also called on the Congress to enact a legislative line-item veto. This would help the Executive and Legislative Branches work together to strike unwarranted earmarks and other wasteful and unnecessary spending from the budget.

Our Budget shows how we can work with the Congress to achieve a balanced budget by 2012. But, that accomplishment will be short-lived without addressing our longer-term budgetary challenge—the unsustainable growth in Medicare, Medicaid, and Social Security. By 2040, spending on these and other mandatory programs will crowd out all discretionary spending—for defense, homeland security, or education—unless we take steps to reform these programs.

The 2008 Budget takes an important step toward sensible reform of mandatory spending—saving $96 billion over five years. Although this only represents one percent of mandatory spending, it lays the foundation for more comprehensive reforms that are needed to insure that these crucial programs continue providing health and retirement security for future generations.

Current Trends are not Sustainable



BUILDING A STRONG ECONOMY

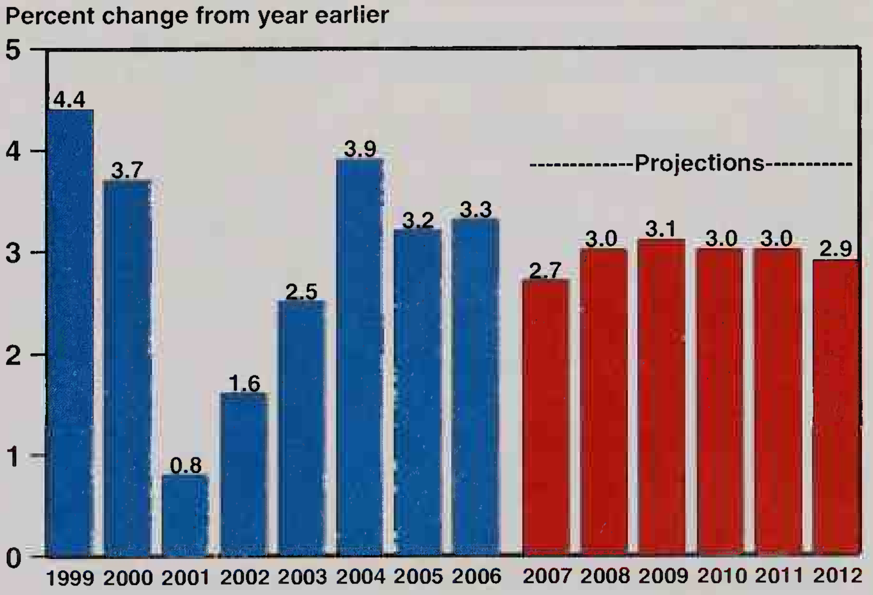
The American people are building a strong economy poised for a prolonged period of solid growth that will continue to create jobs, raise wages, and lift their living standards. They are succeeding while overcoming major obstacles and by adapting readily to changing circumstances.

Our economy has always been and likely will always be subject to diverse shocks and disruptions. The American economy typically overcomes such influences in a relatively short period because of its inherent flexibility and vitality. This proved to be true again in 2006. Despite energy price spikes, a long-anticipated housing correction, a struggling domestic auto manufacturing sector, the current and lingering effects of a rising Federal Funds rate, the persistent uncertainties associated with the Global War on Terror, and the lingering effects of Hurricane Katrina in 2005, real Gross Domestic Product (GDP) rose 3.0 percent over the four quarters ending in September, 2006, and employment increased by 2 million jobs through the 12 months ending in December.

THE ROLE OF POLICY IN BUILDING A STRONG ECONOMY

Continuing economic strength and resilience are the product of well-designed and well-functioning economic institutions, and of sound policies such as low taxes, a strong preference for low and stable inflation, restrained regulation, open markets, and spending restraint by the Federal Government.

Strong Economic Growth Continues



NOTE: GDP growth for 2006 is an estimate.

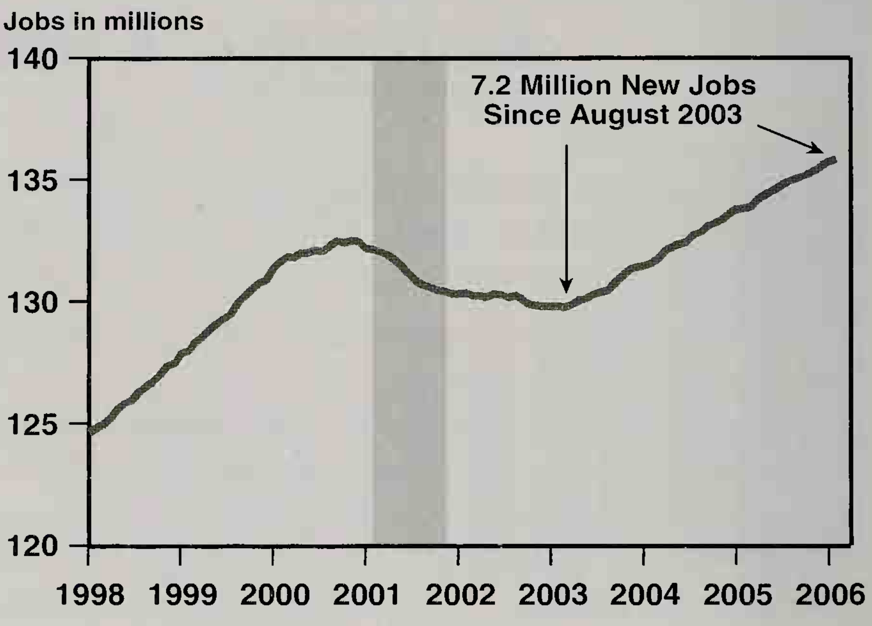
In 2001 the President, working with the Congress on a bipartisan basis, enacted the largest tax cut since the Reagan Administration. The tax cut doubled the Child Tax credit, cut the marriage penalty, and lowered individual income tax rates. These tax changes provided timely fiscal stimulus that combined with an aggressive monetary response by the Federal Reserve to counter the recession then underway, and were fortuitously timed to help the economy weather the effects of the September 11th terrorist attacks.

The 2001 tax cuts helped stabilize the economy, but it remained weak in the face of a declining stock market and corporate accounting scandals that rocked business and investor confidence. So the President pressed for additional tax relief in 2002 and again in 2003, including provisions to encourage business investment in new plant and equipment and an historic reduction in the capital gains and dividend tax rates. The combination of all these tax policies worked, and by the Fall of 2003 a robust economic expansion was underway. From August 2003 through December 2006 the U.S. economy generated over 7.2 million new jobs, including the upcoming benchmark revision.

The tax cuts will continue to strengthen growth in the years ahead by reducing the inherent biases in our Federal tax system against work, saving, investment, economic risk taking, and entrepreneurship. Along with the tax cuts, other policies of this Administration will continue to strengthen our economy. For example, the Administration has:

- Strengthened our financial markets by restoring accountability and transparency.
- Made great strides in reducing the regulatory burden, cutting the cost of new regulations by more than half while preserving protections for workers and consumers.
- Expanded export opportunities by negotiating 10 new free trade agreements with 15 countries.
- Put in place policies to restrain excessive health care inflation through market-based reforms in Medicare and through the market discipline resulting from the enactment and growing popularity of Health Savings Accounts.

Job Growth Remains Strong and Steady



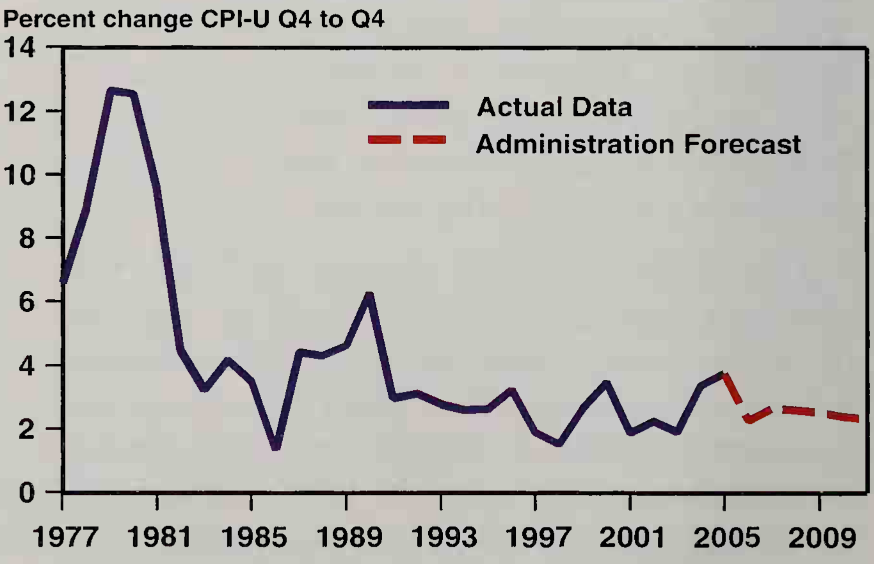
Shaded area represents recession period.

The task ahead is to sustain, improve, and build on these policies, and to address long-term national issues such as access to affordable health care, and reforms to our important, yet unsustainable, entitlement programs.

The Economy in 2006: Continued Growth and Resiliency

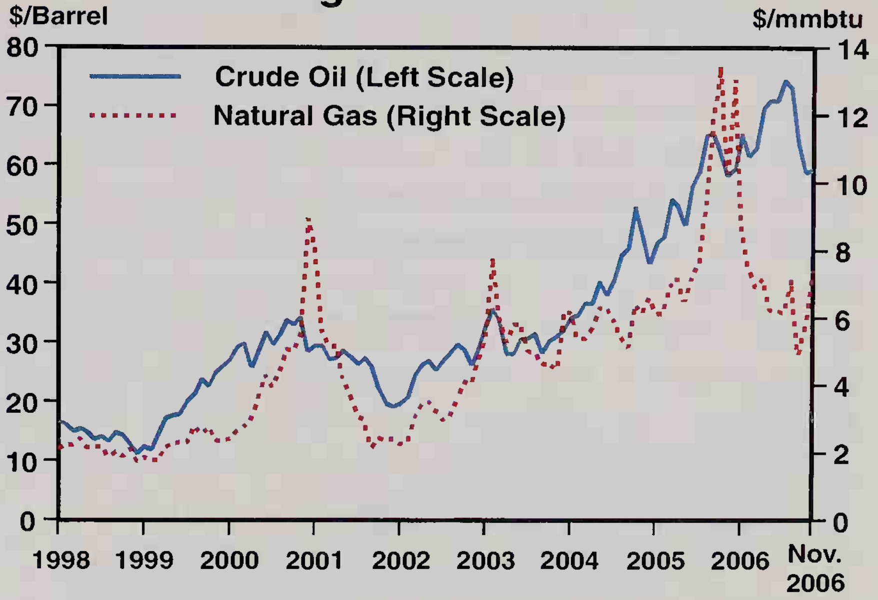
The economy entered 2006 with a full head of steam despite the profound and lingering effects of Hurricanes Katrina, Rita, and Wilma the previous year. In the first quarter of 2006, real GDP grew 5.6 percent at an annualized rate and the economy created over a half million new jobs. The unemployment rate stood at 4.7 percent, which is about as low as most economists believe is sustainable in the long run. Yet over the course of the year the economy would need to overcome some serious challenges if it was to continue to grow and expand employment briskly.

Inflation Remains Low and Inflation Expectations are Subdued



As 2006 began, the Federal Reserve was well along in moving toward a more neutral monetary policy. The Fed had steadily raised the Federal funds rate from 1 percent in mid-2004 to 4.5 percent at the start of 2006. The Fed continued to raise the funds rate until it paused at 5.25 percent in August. The evidence to date suggests the Fed responded to events successfully with a policy of aggressive monetary accommodation in 2001, and has returned to a more neutral stance while preserving a relatively low rate of inflation and subdued inflation expectations. Measured by the Consumer Price Index, prices rose about 2 percent in 2006. The Administration forecast, which is very similar to that of the Blue Chip Consensus, is for inflation to remain moderate through the forecast period.

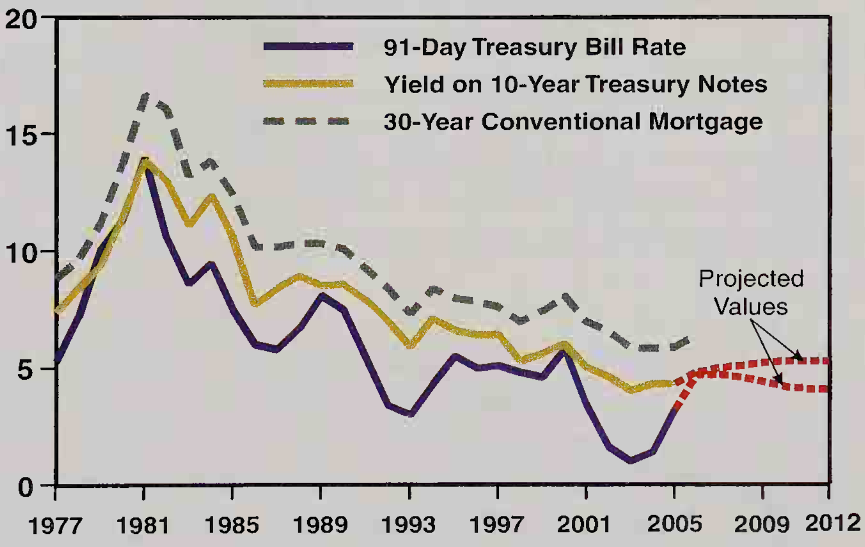
Rising energy prices also tended to restrain economic growth in 2006 while putting upward pressure on inflation. As recently as January 2002 the price of West Texas Intermediate crude was around $20 a barrel. Four years later the price was over $65 a barrel. Natural gas prices experienced a comparable percentage increase, with a particularly remarkable, though temporary, surge in mid-2006. Crude oil prices continued to rise through the first half of the year, reaching a high of over $77 a barrel in mid-July before falling back toward $60 by the end of the year. The surge in energy prices was especially troubling for industries that are energy intensive or that produce energy-consuming products, such as the auto industry. The economy has benefited from the decline in energy prices since last summer, but energy prices remain elevated and this headwind has not yet fully abated.



Crude Oil and Natural Gas Prices Have Surged in Recent Years

Housing prices and new housing construction experienced a major boom from 2001 through 2005. Going into 2006 a correction was widely expected, and those expectations were realized: As of November housing starts were down 29 percent from their 2005 average, sales of new homes were down 16 percent, and new home prices were flat or falling in most of the country.

By the end of the year, however, the housing sector was showing signs of stabilizing. For example, new home sales had leveled out as had new mortgage applications, likely encouraged by the sizable drop in home mortgage rates from a peak for the year of 6.8 percent in July to around 6.15 percent by the end of the year.

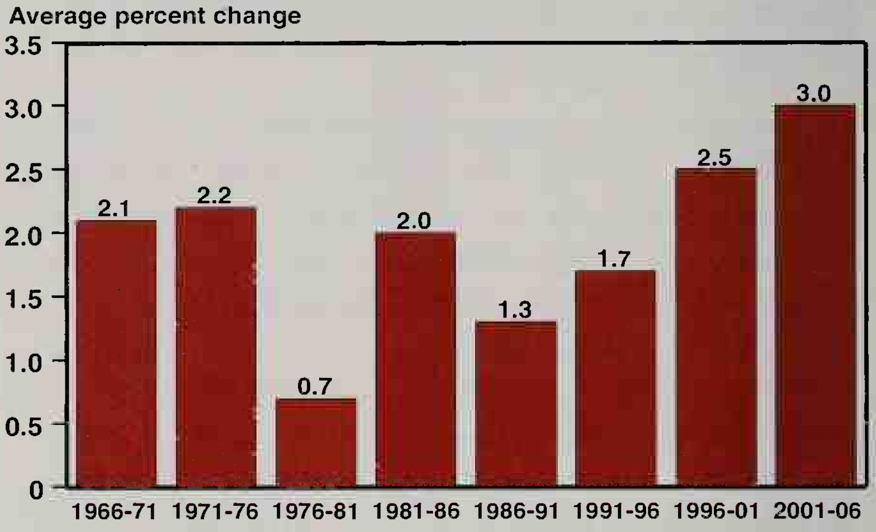


Interest Rates are Projected to Remain at Moderate Levels

Against all these headwinds the economy has continued to move forward and has continued to recover its overall balance from the 2001 recession as the expansion matures. The 2001 recession officially ended in November of that year as total output began to revive. However, increasing the level of output was only the first step as the economy recovered its balance.

Initially, America's businesses increased output using their existing facilities and their then-current workforce without adding to capacity or payrolls. This meant that labor productivity rose exceptionally rapidly at 4.1 percent in 2002, a very good sign for economic health, business profits, and subsequent real wage gains, but it also meant the economy was growing without adding jobs.

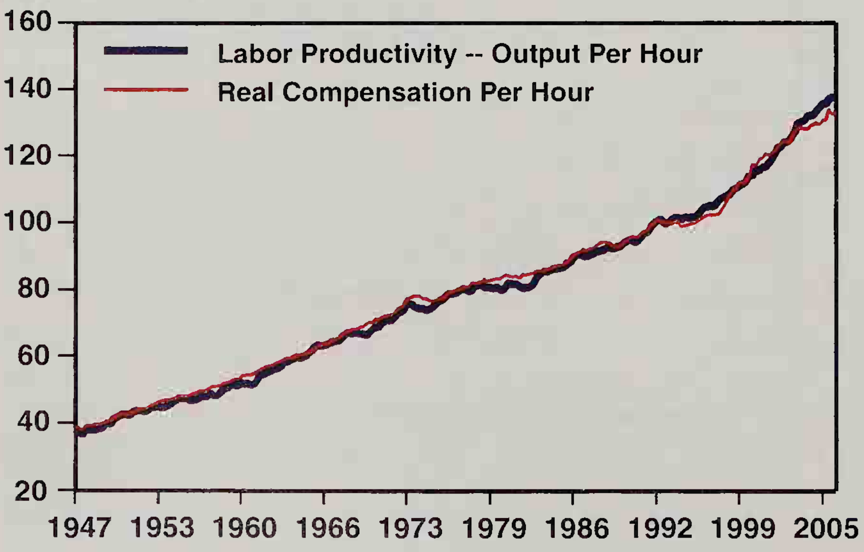
Business investment in new equipment began to accelerate shortly after the President signed the 2003 tax relief bill, and businesses began hiring again soon thereafter as economic prospects brightened. From August 2003 to the end of the year employment rose by a half million jobs, and from August of 2003 through December of 2006 employment was up by 7.2 million after revisions. In 2006 alone, employment grew by about 2 million jobs, pushing the unemployment rate down to a very low 4.5 percent. Meanwhile, real business fixed investment increased at annual rates of 5.9 percent in 2004, 6.8 percent in 2005, and over 9 percent annualized through the third quarter of 2006.



Productivity Growth has Accelerated Since the Mid-1990s

NOTE: Productivity growth for 2001-2006 is based on an estimate for 2006, fourth quarter.

Over long periods of time, growth in employee compensation adjusted for inflation tends to track improvements in labor productivity very closely, but this relationship is looser over the course of a business cycle. When output is rising and labor markets are soft, labor productivity growth tends to outrun growth in employee compensation. Once labor markets tighten sufficiently, the growth in employee compensation tends to match, and then for a period to exceed improvements in labor productivity, eventually restoring the historical relationship between compensation and productivity.



Productivity is the Driving Force Behind Labor Compensation

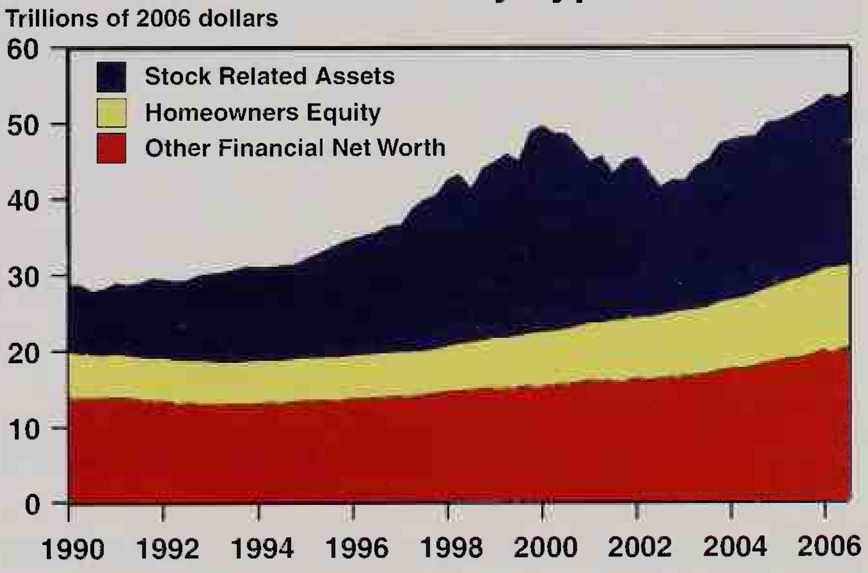
Source: Bureau of Labor Statistics; staff calculations. Real output and compensation measured on equivalent price index basis.

Increasing output was the first stage in the recovery; growth in employment was the second stage. The third stage in the restoration of a balanced economy is achieved when there is a strong and steady revival of real growth in wages and benefits. The signs in 2006 suggest that in this respect the economy has almost fully regained its balance: Nominal wages grew 5.1 percent in 2005 and 5.9 percent through November 2006. Total labor compensation, which includes wages and benefits, rose 5.5 percent in 2005 and 5.9 percent through November 2006. The modest, temporary surge in inflation in early to mid-2006 meant that real wage growth was somewhat subdued at the time despite the strong growth in nominal wages. However, with inflation moderating and strong growth in nominal wages, real wages were up 2.3 percent, or $1,350 for a typical family of four, over the 12 months ending in December 2006, the strongest 12-month performance since 1998 and a harbinger of strong real wage growth expected in 2007 and beyond.

In addition to strong growth in employment and income, the American people also enjoyed yet another significant increase in their real net assets in 2006. Rising real net wealth is a reflection of the increasing command over resources Americans enjoy, and an indicator of economic prospects for the future. By the third quarter of 2006, real household net worth was up 5.4 percent from the year earlier, and up almost 17 percent from the fourth quarter of 2000. Equity values have trended upward since the Summer of 2003, and as measured by the S&P 500 were up almost 14 percent in 2006. Other financial assets have risen steadily in value, and real estate wealth is up 58 percent since the President took office. The real estate sector is undergoing a correction that may reduce housing prices in some regions of the country, but even so on average housing prices were up 4.4 percent after inflation in the third quarter of 2006 compared to the year earlier.

Summing up, the Federal Reserve has held the funds rate steady at 5.25 percent since August, oil prices have retrenched and began the year well below $60 a barrel, and the housing sector has made a substantial correction. Meanwhile, long-term interest rates remain remarkably low and inflation appears to be ebbing. And, the last element of an overall balanced economy yielding a self-sustaining economic expansion is now in place: strong and steady wage growth working with steady growth in jobs justified by steady productivity growth, creating strong growth in consumer purchasing power, and preserving the competitiveness and profitability of American businesses. All in all, the economy appears well-poised to handle whatever new and unexpected disruptions 2007 may bring and to attain the growth the Administration is forecasting.

Real Household and Nonprofit Net Worth by Type



The Economy and the Budget: Reducing the Deficit

In February 2004, the President's Budget forecast a deficit for that fiscal year of 4.5 percent of GDP, or $521 billion. Even coming out of a recession and in time of war, that is a significant fiscal shortfall, and the President determined it needed to come down. And so he set a goal of cutting the deficit in half by 2009.

As countries have found across the globe and across time, significant deficit reduction is never easy. On the receipts side, governments face the choice of pursuing pro-growth policies to generate higher tax receipts, or raising taxes and sacrificing some degree of their economic growth. This Administration has chosen to pursue pro-growth policies, and they have worked. Along with steady growth in output and incomes, we have seen remarkable growth in Federal tax receipts. In 2004, tax receipts rose 5.5 percent. In 2005, tax receipts rose 14.5 percent, the largest one year growth in receipts since 1982. In 2006, tax receipts rose another 11.8 percent.

The other side of deficit reduction is restraining spending to bring it in line with receipts. Since the September 11th terrorist attacks, the President's Budgets have provided the necessary funding for prosecuting the Global War on Terror and for homeland security needs, while calling for increasing restraint in non-security discretionary spending and significant reductions in mandatory spending. The 2008 Budget continues this emphasis on fiscal discipline as non-security discretionary spending growth is held well below the rate of inflation, total discretionary spending is held to about the rate of nominal GDP growth, and the Budget proposes $96 billion in new mandatory savings over five years.

As a consequence of strong receipts growth and spending restraint, the deficit in 2006 was not the 3.2 percent of GDP, or $423 billion, predicted last February; the deficit in 2006 came in 1.9 percent of GDP, or at $248 billion, meeting the President's deficit goal three years early.

On January 2, 2007, the President set a new goal for the Nation: balancing the budget by 2012. The policies contained in this Budget represent the next steps toward meeting that goal.

The strong and steady progress toward a balanced budget would not be possible without the Administration's pro-growth economic policies. By reducing the deficit through spending restraint and growth-generated revenue increases, the Administration has shown the great strides that can be made toward fiscal discipline without raising taxes.

The pro-growth tax cuts enacted in 2001 and 2003, currently scheduled to expire at the end of 2010, should be made permanent as proposed in this Budget to ensure continued strong economic growth. The tax cuts served to energize the forces underlying our economy coming out of recession and will continue to do so, and the stronger future economic growth will help to provide the resources needed to address the very real problems we face with the unfunded liabilities in the Medicare, Medicaid, and Social Security programs discussed in the next chapter, the Nation's Fiscal Outlook.

THE NATION'S FISCAL OUTLOOK

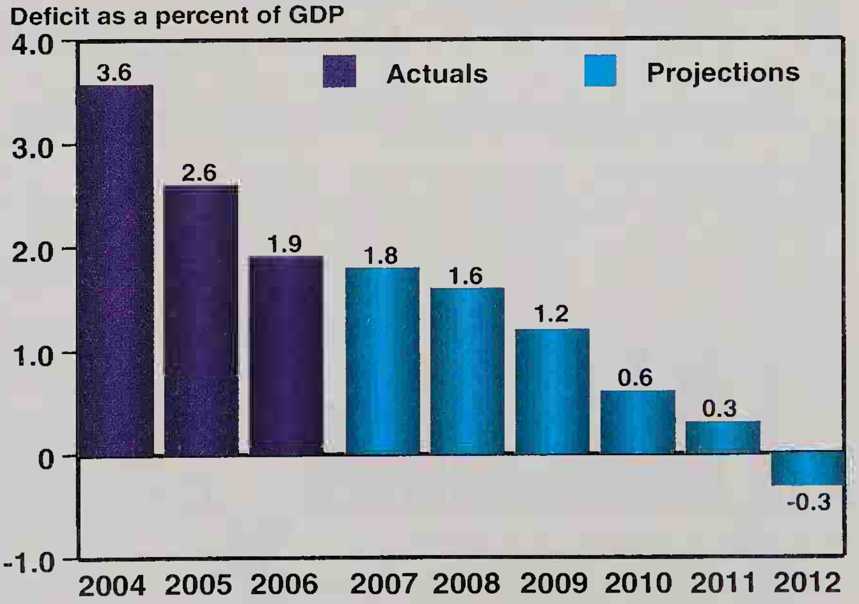
The President's 2008 Budget addresses the Nation's near-term and long-term fiscal challenges through pro-growth economic policies and spending restraint. Three years ago, the President set a goal to cut the deficit in half by 2009 from its projected peak in 2004. The President's fiscal approach succeeded, and the results—including two consecutive years of double-digit revenue growth—allowed the President to achieve that goal in 2006, three years ahead of schedule. The Administration's fiscal strategy of pro-growth tax policy, restraint in discretionary spending, and reductions in the growth of entitlement spending, will further reduce the deficit and balance the budget by 2012. This steady improvement in the deficit outlook is welcome news. Yet despite this improvement in the near term, the Nation continues to face pressing long-term fiscal challenges arising from our key entitlement programs. The President has made clear that he wants to work with the Congress to address this longer-term problem of the unsustainable growth in entitlement spending.

THE NEAR-TERM FISCAL OUTLOOK

Since the beginning of his Administration, the President has pursued pro-growth economic policies to give all Americans the opportunity to share in the Nation's prosperity. Strong economic growth is also essential to generating the revenue needed to reduce the deficit. The President has pursued spending restraint in the face of enormous challenges, from the significant costs arising from the September 11th terrorist attacks and the subsequent War on Terror, to the response and rebuilding after Hurricane Katrina.

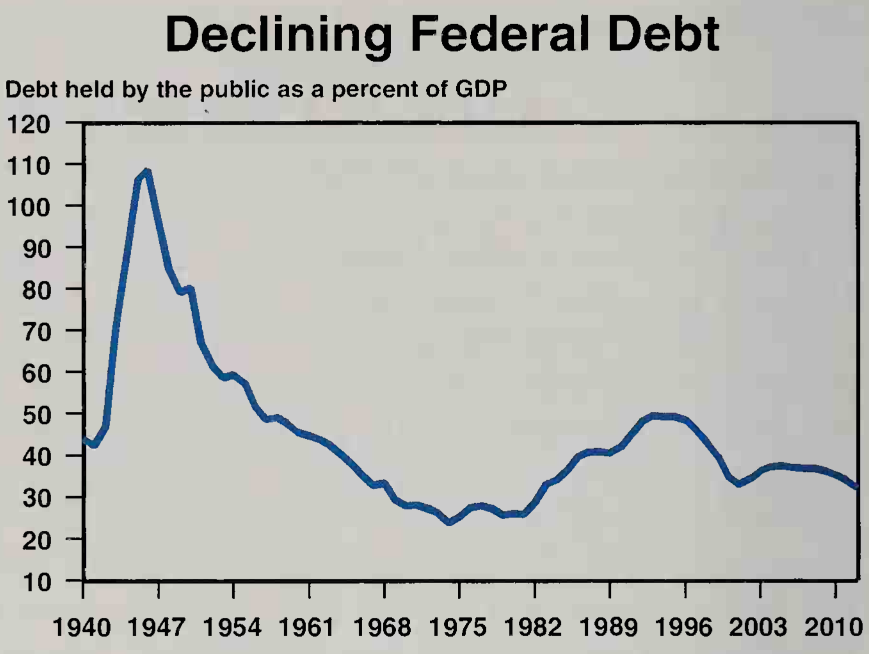
The size of the deficit and the debt is best assessed in relation to the economy as a whole, as measured by Gross Domestic Product (GDP). In his 2005 Budget, the President set a goal to cut the deficit in half by 2009 from its projected peak in 2004. The President achieved his goal in 2006, three years ahead of schedule. The deficit fell from a projected 4.5 percent of GDP, or $521 billion, to 1.9 percent of GDP, or $248 billion. This deficit is below the 40-year historical average of 2.4 percent of GDP, and is smaller than the deficit as a percent of GDP in 18 of the previous 25 years.

Balancing the Budget



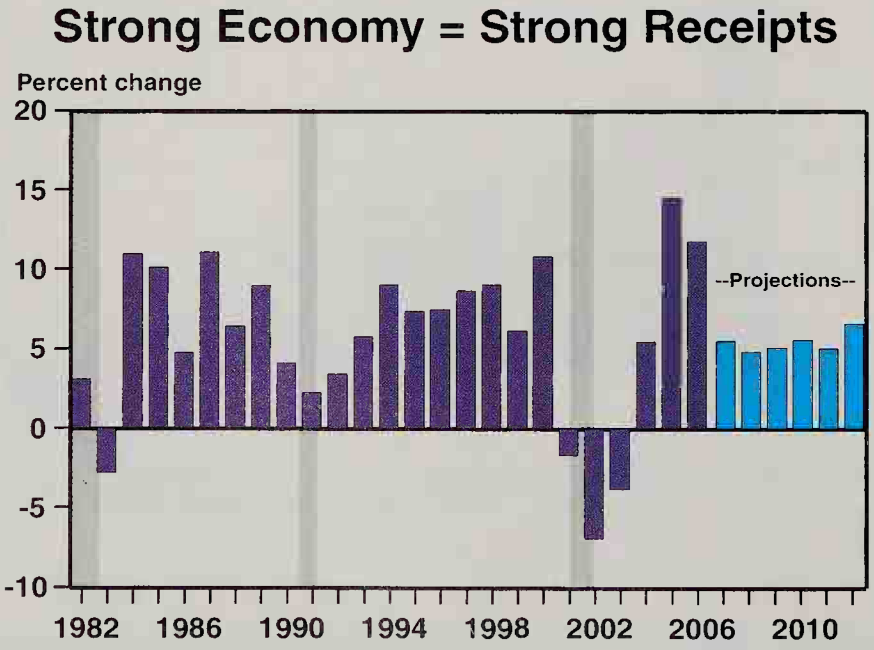
The Budget reflects the projected full costs of the War on Terror for 2007 and 2008. It also includes an allowance for at least a portion of the anticipated costs for 2009; actual funding needs will be determined by conditions at that time. In addition, the Budget assumes the extension for one year of relief from the Alternative Minimum Tax (AMT). Even with these added costs, the deficit is projected to decline in both dollar terms and as a share of the economy in 2007. By 2012, the Budget is projected to generate a surplus of $61 billion. The Budget projects these results while increasing funding for the Nation's security, investing in education and supporting other key national priorities, including making permanent the President's tax relief.

The Nation's fiscal outlook is reflected in both the annual budget deficit and the amount of Federal debt held by the public, which is debt issued to finance past and current deficit spending. Debt held by the public has ranged from 33 to 49 percent of GDP over the past 20 years, and has averaged 35 percent over the past 40 years. For 2006, debt held by the public declined from 37.4 percent to 37.0 percent of GDP. For 2012, debt held by the public is expected to be 32 percent, below the 40-year historical average, providing further evidence that the President's pro-growth economic policies and spending restraint are working to improve the Nation's fiscal outlook.



Strong Economy: Fueled by Pro-Growth Policies

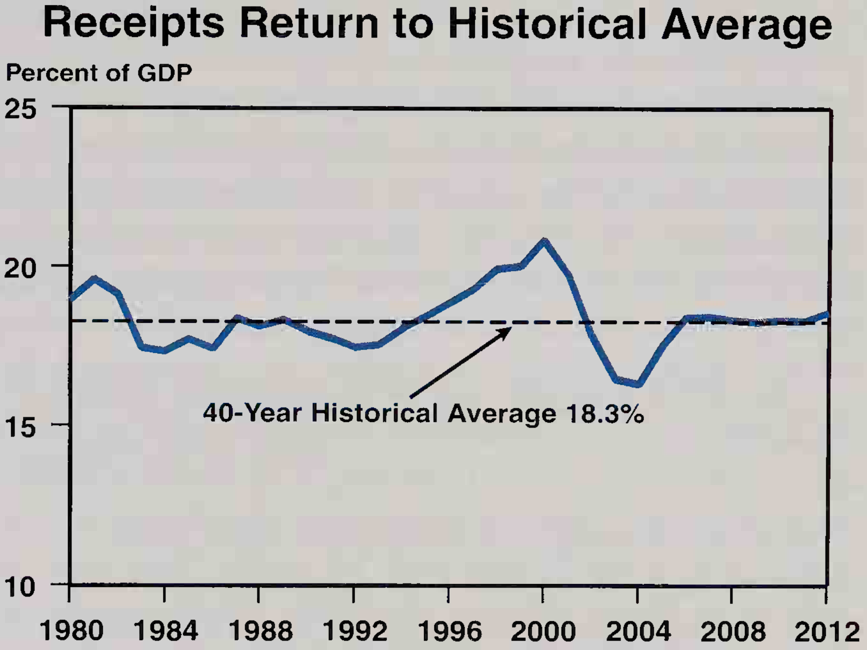
The President's pro-growth economic policies, beginning with his tax relief proposals, have promoted America's entrepreneurial spirit, rewarding the hard work and risk-taking of the Nation's workers and entrepreneurs. The tax relief included reducing marginal individual income tax rates, doubling the child tax credit, reducing the marriage penalty, reducing capital gains and dividend tax rates, encouraging retirement savings, reducing the estate and gift tax, and increasing incentives for small business investment. On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005, extending through 2010 capital gains and dividend tax rate relief and extending through 2009 a provision to encourage small business investment by raising the expensing limits for equipment purchases. On August 17, 2006, the President signed the Pension Protection Act of 2006, tightening the rules relating to defined-benefit plans and making permanent some of the President's proposals to encourage retirement and education savings.



Note: Shaded areas indicate recessions.

Because of the positive economic impact his tax relief program has had in the short term, and would continue to have over the long term, the President's policy is to make tax relief permanent rather than allowing it to expire as scheduled at the end of this decade. Since the President's tax relief was fully implemented in 2003, the Nation's economy has generated more than seven million jobs. This strong economic growth has been good for the Nation's workers and the resulting revenue growth has been good for the Federal budget.

For 2006, tax receipts of $2.4 trillion were 11.8 percent greater than in 2005, and in 2005 receipts were 14.5 percent higher than in 2004. Each year constituted record receipts and together made for the highest two-year percentage growth in receipts in the past 25 years. The Budget conservatively projects future revenue growth that averages 5.4 percent over the next six years, about equal to the projected overall growth in the economy.



The tax proposals in the 2008 Budget promote continued economic growth and, consequently, continued growth in the Government's tax receipts. The Budget proposes to make permanent tax relief that was enacted in 2001 and 2003. In addition, the Administration proposes to change the tax code to encourage savings for retirement, to make it easier for all Americans to afford health insurance, and to increase small business investment. Furthermore, the Administration proposes to simplify the tax code for families, close tax loopholes, and increase tax compliance.

In addition to tax relief, the President will continue to strengthen the economy by advancing basic research and development, promoting innovation and accountability in education, reducing the burden on business of Government paperwork and regulations, reducing costly and unnecessary litigation, and eliminating trade barriers and opening overseas markets to American products and services.

National Security Spending: Protecting the American People

Security spending includes spending for the Department of Defense, homeland security, and international diplomatic efforts. International affairs spending finances efforts to create a stable government in Iraq, rebuild the economy in Afghanistan, and enhance security by promoting democracy and building alliances around the world. Between 2001 and 2006, security spending increased 41 percent overall: 36 percent for defense, 38 percent for international affairs, and 209 percent for homeland security. These significant increases were necessary to protect the Nation's homeland and pursue the War on Terror after September 11th.

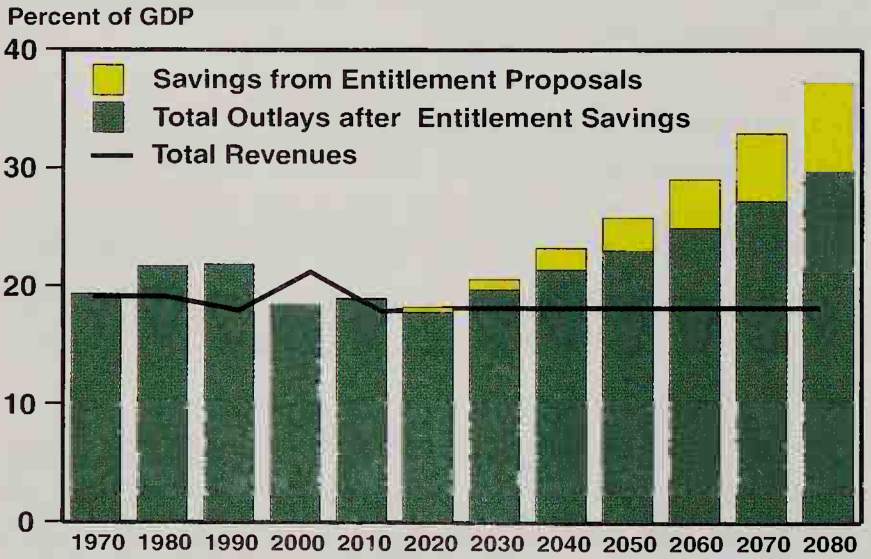
In his 2008 Budget, the President includes a further 10.5 percent increase in base defense spending. This includes funding to maintain a high level of military readiness to support the Global War on Terror and to continue to transform the military to meet the challenges of the 21st Century. The Budget includes a 17.1-percent increase in spending for international affairs to support key allies in the Global War on Terror, promote democratic institutions and values, counter the spread of HIV/AIDS, and provide humanitarian assistance to those affected by continuing violence and instability. In addition, the Budget includes a 6.7-percent increase to defend the Nation's homeland by funding nuclear detection capabilities, strengthening the country's borders, developing high-tech screening capabilities, and maintaining close partnerships with State and local law enforcement officials.

Spending Restraint: Slowing Growth in Non-Security and Entitlement Spending

The near-term budget outlook has improved in large part because of the double-digit growth in tax receipts and also because of spending restraint. Due to the need for increased spending on defense and homeland security as part of the Global War on Terror and the automatic increases in spending for entitlement programs, outlays rose to $2.7 trillion in 2006, or 20.3 percent of GDP. Despite these spending pressures, spending remained below the 40-year historical average of 20.6 percent of GDP. This is largely because over the past two years, the Congress and the President have reduced the growth rate in non-security discretionary spending—which grew by more than 16 percent in the last year of the previous Administration—to below the rate of inflation. In addition, in February 2006, the Congress enacted and the President signed into law the Deficit Reduction Act of 2005, generating nearly $40 billion in mandatory savings over five years.

The 2008 Budget achieves spending restraint by holding growth in non-security discretionary spending to one percent in 2008 and for the five-year period. The Budget reduces or eliminates 141 programs saving $12.0 billion, and slows spending growth through sensible reforms in entitlement and other mandatory programs, resulting in savings of $96 billion over five years, and growing to savings of $309 billion over 10 years. This total includes $66 billion in savings in Medicare and $6.8 billion in Medicaid and the State Children's Health Insurance Program (SCHIP) over five years, as discussed below. The Budget also proposes to increase premiums paid to the Pension Benefit Guaranty Corporation (PBGC) by corporations with defined-benefit pension plans, providing $5.5 billion over five years to put the PBGC on a path to solvency. And, the Budget proposes to increase user fees, saving $7 billion over five years, to capture more fully the costs to the Government of providing particular goods and services.

THE LONG-TERM OUTLOOK



Entitlement Savings Will Reduce Long-Term Fiscal Challenge

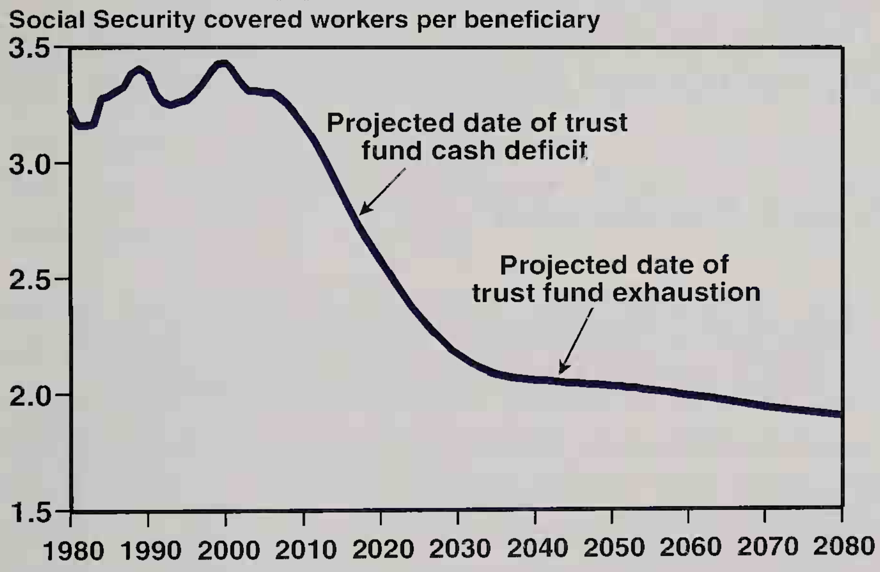
While the near-term outlook of smaller deficits and a surplus starting in 2012 is encouraging, the current structure of the Federal Government's major entitlement programs will place a growing and unsustainable burden on the budget in the long-term. Currently, spending on Medicare, Medicaid, and Social Security is approximately eight percent of the Nation's GDP. With the first of the baby boom generation becoming eligible for Social Security in 2008, Social Security spending will accelerate. Three years later, the problem will become more pronounced as these individuals become eligible for Medicare, under which program costs rise even faster due to health care inflation. By 2050, spending on these three entitlement programs is projected to be more than 15 percent of GDP, or more than twice as large as spending on all other programs combined, excluding interest on the public debt.

The mandatory savings proposals in the 2008 Budget will not solve the Government's long-term fiscal challenges, but they are an important and meaningful step, producing a significant improvement over the long term. Under the President's Budget policies, the deficit in 2050 is projected to be 4.7 percent of GDP. In contrast, if the Congress fails to adopt the President's mandatory proposals and permits current law to remain in force, the deficit in 2050 is projected to be 7.5 percent of GDP. A more detailed analysis of the Government's long-term fiscal outlook is provided in the Stewardship chapter of the *Analytical Perspectives* volume of the Budget.

Social Security: Promised Benefits Outpacing Resources

Social Security was designed as a pay-as-you-go, self-financing program whereby current workers pay taxes directly and indirectly, through their employers, to support the benefit payments for current retirees, disabled persons, and survivors (collectively, beneficiaries). Such a system can only be sustained if the number of workers and the taxes they pay align with the number of beneficiaries and the benefits they receive. In 1950, when there were 16 workers for every program beneficiary, the combined payroll tax rate was very low at 3 percent of taxable wages. Currently, there are 3.3 workers for every beneficiary and the tax rate is 12.4 percent. The ratio of workers to beneficiaries is expected to decline further as the first of the baby boom generation becomes eligible for Social Security in 2008, and will fall to 2.2 workers per beneficiary in 2030.

Fewer Workers Will Soon Support More Retirees



Even after the baby boom generation is fully retired, the ratio of workers to beneficiaries will continue to fall, reaching 1.9 in 2080 primarily because of the growing difference between projected life expectancy and the age at which seniors become eligible for Social Security benefits. The increase in longevity, coupled with the fact that Americans are spending fewer years in the workforce, means that Americans are spending a greater proportion of their lives in retirement than ever before. Since 1940, life expectancy at age 65 has increased by approximately 40 percent and is projected to increase by an additional 20 percent by 2080.

The growth in retirees resulting from the retirement of the baby boom generation and increases in life expectancy will create a large and rapidly growing mismatch between scheduled Social Security benefits and the resources available to the program under current law. Through 2016, Social Security is projected to collect more in cash receipts than it pays in benefits. Beginning in 2017, however, Social Security benefit payments are projected to exceed the cash income dedicated to the trust funds. From this point forward, the Federal Government must borrow, tax, or cut other spending to pay excess Social Security benefits. Receipts are projected to continue falling to 70 percent of promised benefits by 2080.

There are many ways to summarize the extent of the mismatch between expected Social Security receipts and benefits. One such summary is the discounted present value of all future scheduled benefits net of receipts, or unfunded obligations under Social Security. The concept is to compare scheduled benefits and receipts under current law into the indefinite future, and to recognize through discounting that a dollar tomorrow is worth less than a dollar today. Based on the 2006 Social Security Trustees' Report, the unfunded obligation of Social Security totals $15.3 trillion over the indefinite future. To put this figure into perspective, this is about three times the amount of Federal debt currently held by the public.

The President is committed to strengthening Social Security through a bipartisan reform process in which participants are encouraged to bring different options for strengthening Social Security to the table. The President has identified three goals for reform: to strengthen permanently the safety net for future generations without raising payroll tax rates; to protect those who depend on Social Security the most; and to offer every American a chance to experience ownership through voluntary personal retirement accounts.

The 2008 Budget again reflects the President's proposal to allow workers to use a portion of the Social Security payroll tax to fund voluntary personal retirement accounts. These accounts will permit Americans to have greater control over their retirement planning, giving them an opportunity to obtain a higher return on their payroll taxes than is possible in the current Social Security system. The result will be to shift Social Security from an entirely pay-as-you-go system of financing toward a system that is less dependent on current workers. Beginning in 2012, workers will be allowed to use up to four percent of their Social Security taxable earnings, up to a $1,300 annual limit, to fund their personal retirement accounts; the $1,300 cap will be increased by $100 each year through 2017.

As one component of reforms to make the system sustainable, the President has embraced the idea of indexing future benefits of the highest-wage workers to inflation while continuing to index the wages of lower-wage workers to wage growth. Over time, wages tend to rise faster than prices, and so "progressive indexing" provides a higher rate of indexing for lower-wage workers than for higher-wage workers. This proposal would help restore the solvency of Social Security, while protecting those who most depend on Social Security. Comprehensive Social Security reform including personal retirement accounts, changes in the indexation of wages, and other modest changes will ensure the sustainability of the program for future generations, and help slow the unsustainable growth in total entitlement spending.

Health Care: Reforms to Improve Quality and Reduce Cost

The Nation spends more than $2 trillion per year on health care, permitting Americans to live longer and healthier lives than at any time in the Nation's history. The Federal Government is the Nation's largest purchaser of health care, accounting for approximately one-third of U.S. health care spending. As a result, economic developments in the health care sector, including the high rate of growth in health care inflation that confronts individuals and companies, are becoming acute fiscal problems for individuals and businesses, and for the Federal Government. Despite an enormous investment and enormous gains in the quality of care overall, health care inflation, the extent of private health care insurance coverage, and gaps in the availability of high-quality care are problems the Nation continues to face.

The 2008 Budget proposes a number of reforms to improve the Nation's health care system. The Administration is proposing a significant change in the tax treatment of health insurance purchases and expenditures for out-of-pocket health care costs. Under this proposal, all individuals and families who buy at least a catastrophic health plan will receive the same tax benefits, in the form of a flat $15,000 deduction. The Administration's proposal will make health insurance more affordable for millions of American families and reduce the number of the uninsured. This policy will also eliminate the tax bias toward high-cost insurance, making health care purchasers more price conscious and thereby marshalling market forces more effectively to restrain health care inflation. The Administration continues to promote the use of health information technology to enhance the health care delivery system, including the availability of price and quality information to individuals. This would allow health care consumers to spend their health care dollars more wisely, and avoid unnecessary procedures and treatments.

The President has also asked the Secretary of Health and Human Services to work with the Congress and the States on an Affordable Choices Initiative to redirect existing resources in the health care system to help poor and hard-to-insure citizens afford private insurance. This initiative would help avoid costly and unnecessary emergency room visits and improve health care quality and efficiency.

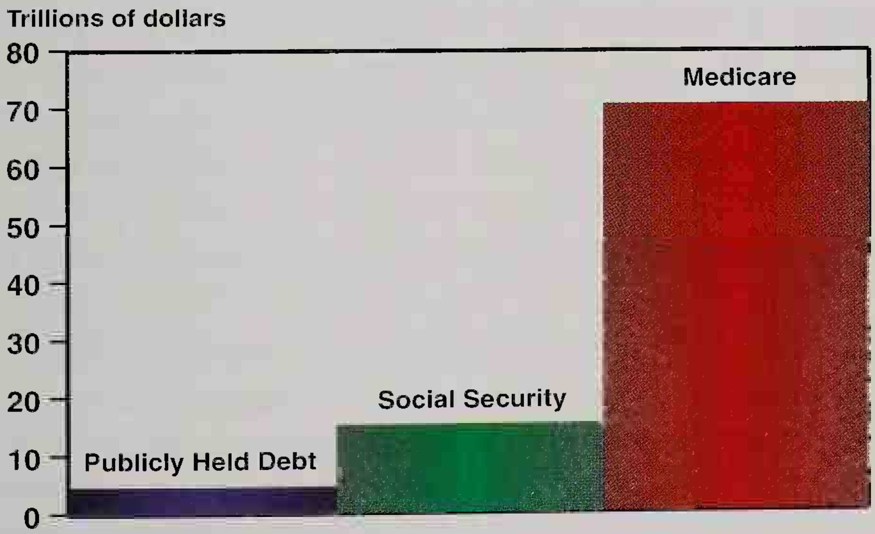
Medicare: Slowing Cost Growth through Reforms

The single largest fiscal challenge we face is the unsustainable growth in the Medicare program. The Medicare Part A Hospital Insurance program receives designated payroll taxes from employees and their employers, which are deposited in the Medicare trust fund held by the Government. Medicare Part A is therefore similar to Social Security in that it is an inter-generational transfer program with current workers paying benefits for current beneficiaries. In contrast, under Medicare Part B, the Supplementary Medical Insurance program, and Part D, the new drug benefit, beneficiaries pay premiums to cover some of the costs and the balance is paid out of general revenues.

As in the case of Social Security, Medicare will face increased cost pressures over the next several decades as the baby boom generation becomes eligible for and receives Medicare benefits. But because of rising health care costs, Medicare is projected to have much higher cost-per-beneficiary growth than Social Security in the coming decades.

Medicare's dedicated revenues from designated payroll taxes and from premium payments cover only 57 percent of current benefits. The remaining 43 percent is financed from general tax revenues. By 2030, the pressure from Medicare on general revenues will be substantially greater as dedicated revenues are projected to finance only 38 percent of total benefits, leaving 62 percent of program costs relying on general tax revenues. This projected rate of growth in Medicare benefits is not sustainable over time.

Social Security and Medicare Unfunded Obligations Far Exceed Current Debt



The 2006 Medicare Trustees' report shows that future dedicated payroll taxes and premiums are sufficient to cover only a portion of Medicare's projected costs. This results in an unfunded obligation (the gap between dedicated receipts and projected costs) of $71 trillion over the infinite horizon. This is more than four times as large as the gap between receipts and projected costs for Social Security and 14 times as large the total amount of Government debt that is held by the public. Within Medicare, the Hospital Insurance trust fund, which is mostly funded by the Medicare payroll tax, has unfunded obligations, or a gap between dedicated receipts and projected costs, of $28 trillion. Meeting these obligations would require tripling the Medicare payroll tax. If the Medicare payroll tax were used to pay for Medicare's entire $71 trillion unfunded obligation, the Medicare payroll tax would have to be increased by 500 percent. This would be a huge tax increase on workers and companies that would cripple the Nation's economy. The only realistic solution is to reduce program growth to a sustainable level.

In the long run, part of the solution to Medicare and Medicaid's unsustainable growth must lie with slowing health care inflation. Recent trends in the overall health care market have already improved Medicare's finances. Spending on the Medicare drug program has been lower than originally expected because of lower-than-projected growth in prescription drug inflation. Medicare drug program spending in 2006, the first year of the benefit, was $15 billion lower than initially estimated. In addition, the drug program spending for 2007 is projected to be $25 billion lower than initially estimated, and for 2007 through 2016 the spending is projected to be $189 billion lower. The slower growth in prescription drug prices has been good for beneficiaries as well. Beneficiary premiums for the drug benefit are lower than expected: an average of $22 per month in 2007 rather than $39 per month as initially estimated. Controlling health care inflation is critical to the success of reform, but other significant reforms are also needed.

With an unfunded obligation of $71 trillion, and annual increases in spending well above inflation and other domestic spending, there has been increasing focus on the need to address Medicare growth rates. The 2008 Budget proposes to restrain Medicare spending both in the near term and in the long term. These proposals save $66 billion over five years and reduce the present value of future net costs by an estimated $8 trillion over 75 years. These are sensible reforms, most of which have been proposed in previous budgets. The aggregate impact of the proposed reforms only slows the rate of growth of the Medicare program from 7.4 percent over 10 years to 6.7 percent.

To achieve these savings, the Budget proposes to promote high-quality and cost-efficient care through competition and innovation. Specifically, the Budget proposes to adjust permanently provider payments to encourage efficiency and productivity, taking advantage of advances in medical technology and the delivery of care, and other management improvements. The Budget also proposes to establish competitive bidding for clinical laboratory services.

The Budget also proposes to encourage greater responsibility for health care use and costs for high-income beneficiaries. In addition, the Budget proposes to modernize and rationalize Medicare policies to encourage efficient and cost-effective payments. For example, the Budget proposes to ensure that patients are served in the most medically appropriate and cost-efficient setting for post-acute care, and that payments for medical equipment be brought in line with actual costs.

In addition to proposing specific reforms to reduce the unsustainable rate of growth in the near term, the Budget also proposes a new mechanism to address the long-term funded unfunded obligation in Medicare. The Budget proposes to build on the progress made in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) with respect to Medicare financing. Under current law, MMA requires the Medicare Trustees issue a "funding warning" if, for two consecutive years, the Trustees find that more than 45 percent of projected Medicare expenditures will require funding from general tax revenue (rather than dedicated resources) within the next six years. In the 2006 Trustees' Report, the Trustees found that general revenue funding would first reach the 45 percent level in 2012, within the seven-year window specified in the MMA.

The 2008 Budget proposes to add an incentive for reform to the MMA funding warning. Specifically, in the year in which the 45 percent threshold is exceeded, there would be automatic payment reductions to providers by four-tenths of one percent per year. The provider payments would continue to be reduced by an additional four-tenths of one percent per year, as long as Medicare's receipts cover 55 percent or less of program costs. The provision is intended to encourage the Congress and the Administration to reach agreement on reforms needed to slow the growth in program costs.

Medicaid: Proposals Ensure Fiscal Integrity

Medicaid is the Federal entitlement program that provides medical assistance, including acute and long-term care, to low-income families with dependent children and to low-income individuals who are elderly, blind, or disabled. As with Medicare, Medicaid costs will increase substantially in the coming decades as the baby boomers retire and begin to have greater health care needs. An increasing number of low-income elderly individuals will come to rely on Medicaid for non-hospital care, including long-term care. In addition, as with Medicare, Medicaid will be under increasing fiscal pressure in the coming decades as a result of health care inflation.

The President's Budget proposes a package of program integrity reforms. These reforms save approximately $6.8 billion over five years, including additional increased funding for the State

Children's Health Insurance Program (SCHIP). The Budget builds on previous initiatives, some of which were included in the Deficit Reduction Act of 2005, to promote sound financial practices, increase market efficiencies, and eliminate Medicaid overpayments. The proposals included in the 2008 Budget help to ensure the fiscal integrity of Medicaid by lowering its rate of growth. These proposed changes reduce the rate of growth of Medicaid from 7.7 percent to 7.6 percent over the next 10 years.

BUDGET REFORMS

During the 1990s, budget decisions were governed by the now-expired Budget Enforcement Act (BEA). Under the BEA, discretionary spending (including both budget authority and actual outlays) was limited each fiscal year to a maximum amount specified in law. In addition, under the BEA, pay-as-you-go rules required all legislation involving new mandatory spending or tax cuts was required to be deficit neutral. Violations of the discretionary spending caps or the pay-as-you-go provisions triggered across-the-board spending reductions. The BEA generally succeeded in preventing the Government's budgetary outlook from deteriorating.

Based in part on the spending controls in the BEA, the President has proposed a number of budget process reforms, including new caps on discretionary spending, a pay-as-you-go requirement for mandatory spending, a line-item veto, and earmark reform. In addition, the Administration implemented its own pay-as-you-go controls to limit mandatory spending resulting from agency administrative action. Specifically, on May 23, 2005, the Office of Management and Budget (OMB) began requiring that proposed agency administrative action that increases mandatory spending be offset by administrative actions that reduce mandatory spending by the same amount.

Federal spending is generally divided into three major categories: discretionary spending (approximately 38 percent of the Budget), mandatory spending (53 percent), and interest on the debt (9 percent).

Discretionary Spending Caps: Restraining Annual Appropriations

Discretionary spending is generally thought of as funding the day-to-day operations of Government and is the only spending subject to annual review and appropriations by the Congress and the President. As distinct from mandatory spending, discretionary spending must be enacted into law every year before Government agencies may obligate and spend money. Hence, discretionary spending is not subject to the same automatic, uncontrolled growth characteristic of some mandatory spending. Nevertheless, without active restraint reinforced by effective rules governing the legislative process, discretionary spending will tend to increase steadily over time. The 2008 Budget proposes to reinstate BEA controls on discretionary spending. Specifically, the Budget proposes placing statutory limits or "caps" on discretionary spending each year through 2012. Any appropriations bill that causes the caps to be exceeded would be subject to a point of order, requiring a three-fifths vote, in the Senate. If, in the aggregate, appropriations actions exceed the spending caps, then OMB would be required to make across-the-board cuts to reduce total discretionary spending to the statutory caps.

Within these proposed spending caps, the Budget proposes to devote resources for program integrity efforts. Program integrity efforts are designed to eliminate spending to those not eligible for benefit payments and to collect unpaid taxes due to the Government. Since program integrity efforts can generate as high as a ten-to-one return to the Government, the Administration proposes an adjustment to the statutory discretionary spending limits for amounts dedicated to program integrity.

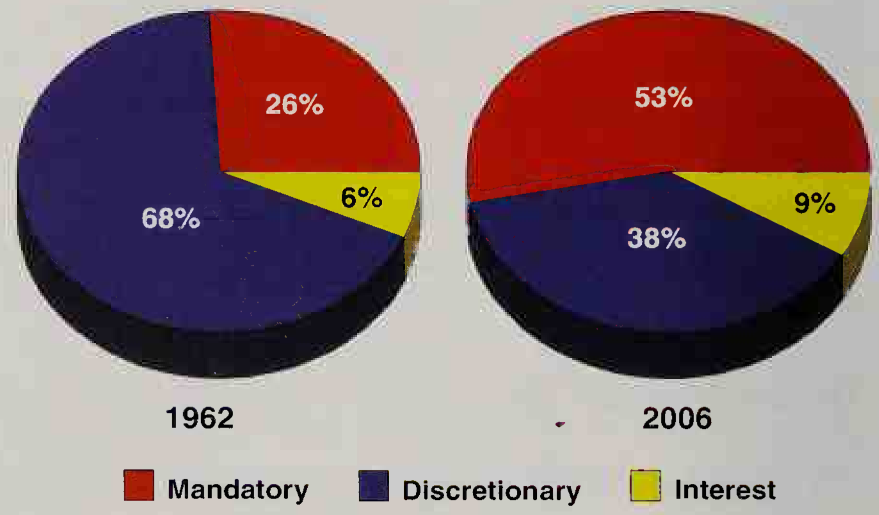
Mandatory Spending Controls: Restraining Automatic Spending

The vast majority of spending for mandatory programs takes place automatically every year without any action on the part of the Congress or the President. It is made up of "entitlement" programs, for which the amount of spending is based on the number of qualifying beneficiaries and benefit formulas specified in law. This spending provides income security and health care to individuals who are elderly, disabled, widowed, or orphaned. These programs are effectively exempt from the annual review and approval in the budget process because the benefit qualifications and benefit formulas are specified in law, resulting in an automatic appropriation of benefit payments.

In 1962, mandatory spending accounted for just over one-quarter of total Government outlays and discretionary spending accounted for slightly more than two-thirds of Government outlays; the remainder of outlays was for interest. Today, the picture is dramatically different, with mandatory spending having doubled as a share of total outlays, now accounting for 53 percent of all Government spending. Without intervention, entitlement spending over the next four decades will become unsustainable. With the baby boom population beginning to become eligible for Social Security in 2008 and Medicare in 2011, the time to address this problem is now.

The 2008 Budget proposes to place limits on new mandatory spending. In addition to the proposal to address excessive general revenue spending in Medicare, discussed above, the Budget also proposes a pay-as-you-go requirement such that any legislation that increases mandatory spending be offset by reductions in other mandatory spending. Any legislation that increases mandatory spending without an equal offset would be subject to a point of order, or a three-fifths vote in the Senate. If, at the end of a Congressional session, the enacted new mandatory spending legislation increases the deficit, then OMB would be required to make across-the-board cuts to non-exempt mandatory programs to eliminate any increase in the deficit.

Mandatory Spending is Overwhelming the Rest of the Budget



In addition, the Budget proposes to adopt a new measure to limit legislated expansions in spending for Social Security, Supplemental Security Income, Medicare, Federal civilian and military retirement, and veterans disability compensation. The new measure would be the change in the actuarial unfunded obligations for each of these programs. The Administration is proposing that any legislation that has the effect of increasing the actuarial unfunded obligation for any of these programs be subject to a point of order, or a three-fifths vote in the Senate.

Earmarks: Reforms to Ensure Tax Dollars are Spent Wisely

An earmark is a spending provision the Congress inserts in legislation. Frequently, these provisions are not publicly disclosed during the legislative process and often they are special interest projects. A number of organizations track earmarks. The Congressional Research Service (CRS) and Citizens Against Government Waste (CAGW) have been tracking earmarks for over a decade. While they do not use the same definition, their data show similar trends. Earmarks have expanded dramatically in recent years, with the numbers and costs of earmarks more than tripling since the early 1990s. According to CAGW, the Congress added nearly 550 earmarks at a cost of $3 billion to the Budget in 1991. The number of earmarks peaked in 2005. CAGW has estimated that earmarks grew to almost 14 thousand at a cost of $27 billion. CRS data show a similar trend, with earmarks reaching more than 16 thousand in 2005 at a cost of $52 billion. OMB has also been tracking earmarks during recent years and estimates that the number of earmarks grew to over 13 thousand at a cost of nearly $18 billion. OMB is in the process of developing the capability to track earmarks during the legislative process.

One major concern about earmarks is the lack of transparency. Most earmarks do not appear in statutory language. Instead, they are included in committee reports that accompany legislation. According to CRS, more than 90 percent of earmarks are in report language. This means that the vast majority of earmarks do not appear in the statutory language that the Congress actually votes on or that the President signs into law. Also, earmarks frequently surface in the late stages of the legislative process, in conference committees between the House and Senate.

The President has called on the Congress to fully disclose all earmarks to reduce the amount of wasteful and unnecessary spending. Taxpayers should feel confident that their tax dollars are being spent wisely. Unfortunately, the large number of earmarks and the lack of transparency in the earmarking process make it difficult to assure the public that the Government is spending the people's money on the Nation's highest priorities. The President has proposed that the Congress provide justification for earmarks, and identify the sponsor, costs, and recipients of each project. In addition, the President has proposed that the Congress stop the practice of placing earmarks in report language. Finally, he has called on the Congress to cut the number and cost of earmarks by at least 50 percent.

Line-Item Veto: A Tool to Reduce Wasteful Spending

The President is again proposing that the Congress enact a legislative line-item veto to improve the budget process. Forty-three of the Nation's governors have a line-item veto, authority that permits them to identify and eliminate wasteful and unnecessary spending.

From the Nation's founding, Presidents have exercised the authority not to spend appropriated sums. However, the Congress sought to curtail this authority in 1974 through the Impoundment Control Act, which restricted the President's authority to decline to spend appropriated sums. The Line-Item Veto Act of 1996 attempted to give the President the authority to cancel spending authority and special interest tax breaks, but the U.S. Supreme Court found that law unconstitutional. The President's proposal is designed to correct the constitutional flaw in the 1996 Act.

The legislative line-item veto would give the President and the Congress an effective tool to eliminate wasteful spending and special interest tax breaks. Under the President's legislative line-item veto proposal, if the Congress were to pass legislation that includes wasteful spending or targeted tax benefits, the President could send back to the Congress the individual items for an up-or-down vote without amendment under fast-track legislative procedures. If the Congress were to pass the package of line items that the President proposes for cancellation, all savings would be used for deficit reduction and could not be used to augment other spending.

Results and Sunset Commissions: Focusing on Performance

In his 2008 Budget, the President proposes to create bipartisan Results Commissions and a Sunset Commission. Results Commissions would consider ways to restructure or consolidate programs or agencies where duplication or overlapping jurisdiction has been identified as an obstacle to performance. Proposals from Results Commissions would be reviewed and if approved by the President, transmitted to the Congress to be considered under expedited procedures. The Sunset Commission would consider Presidential proposals to retain, restructure, or terminate agencies and programs according to a schedule set by the Congress. Agencies and programs would automatically terminate according to the schedule unless reauthorized by the Congress.

Other Reforms: Increasing Order and Accountability in the Budget Process

In addition to the proposals directed at restraining spending and improving Government program and agency performance, the Budget proposes several changes to the budget process that would enhance accountability, improve management, and bring greater order to the budget process. Specifically, the Budget proposes a joint budget resolution, biennial budgeting, and a means to prevent Government shutdowns.

The Budget proposes a joint budget resolution that is passed by the Congress and signed by the President. The current budget resolution does not require the President's signature and, therefore, does not have the force of law. A joint budget resolution would bring the President into the process at an early stage, allowing the President and the Congress to reach agreement on overall fiscal policy before individual tax and spending bills are considered.

The Budget proposes biennial budgeting for all Executive Branch agencies, programs, and accounts in which two-year appropriations bills would be enacted in each odd-numbered year. This would permit the Executive Branch to engage in better mid-term and long-term planning, and improve fiscal management. It would also permit the Congress to engage in more extensive oversight.

The Budget proposes to prevent Government shutdowns by allowing funding to be automatic for those agencies, programs, or accounts for which an appropriations bill has not been enacted by the start of the fiscal year. If an appropriations bill has not been enacted, funding would be automatically provided at the lower of the President's Budget or the prior year's enacted level. This proposal would prevent Government shutdowns and would prevent the uncertainty and confusion that arises when the Congress enacts continuing acts or continuing resolutions.

MANAGING FOR RESULTS

> *It's important to set clear goals and to set priorities for the dollars we spend.... It's important to measure results so that we know we're doing our job. It's also important to measure results to determine whether or not the taxpayers' money is being spent wisely.... And when we find wasteful spending, we work to eliminate it. When we find a program that is making a significant difference, we work to enhance it.*
>
> President George W. Bush
> October 13, 2006

Through the implementation of the President's Management Agenda (PMA), launched in 2001, Federal employees are successfully addressing the Government's most serious management challenges and making programs more effective and customer-focused for taxpayers. The areas of Government-wide emphasis are those long-recognized as essential to an effective Government: Strategic Management of Human Capital; Competitive Sourcing; Improved Financial Performance; Expanded Electronic Government; and Budget and Performance Integration. The strategy ensures the following conditions exist and endure at each Federal agency:

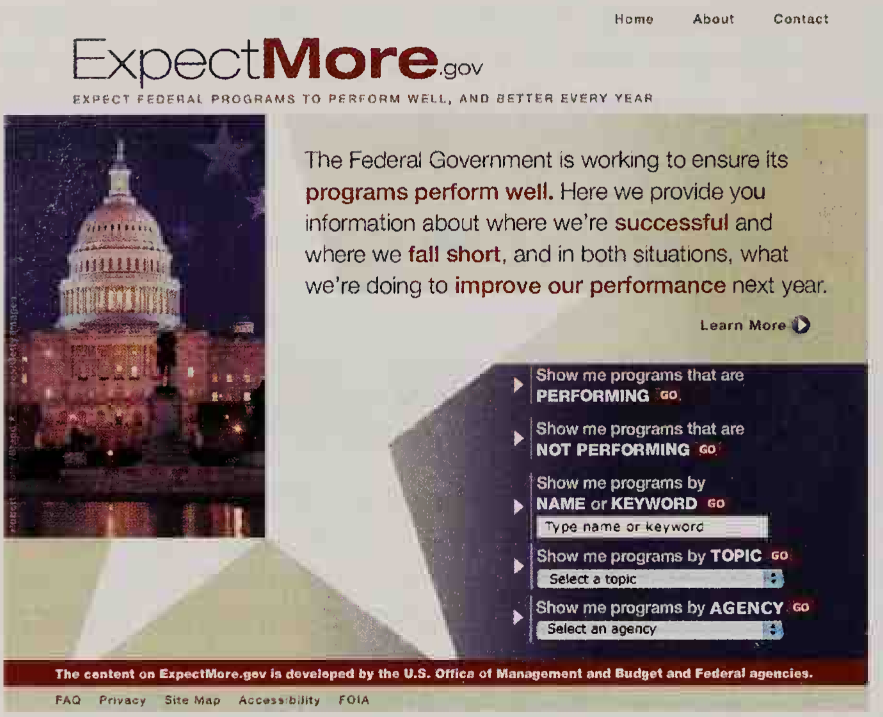
- Clear, specific performance goals—for individuals, projects, programs, and agencies—to help direct management efforts;
- Systems of accountability to motivate better performance; and
- Skills, disciplines, and information needed to achieve performance goals.

Each PMA initiative focuses on establishing specific management disciplines, and many agencies have developed solid management skills as a result. The Government's next challenge is to ensure these skills and disciplines translate into improved program performance. Implementation of the PMA has created significant opportunities for increased efficiency and effectiveness. The goal of Executive Branch leaders is now to use these opportunities to produce sustained results for the American people.

PERFORMING BETTER

The Administration has systematically reviewed the performance of nearly all its programs using a consistent methodology called the Program Assessment Rating Tool (PART). These reviews have helped ensure that all programs have clear, specific definitions of success; performance measures to track that success; and concrete improvement plans.

- Eighty-two percent of programs established or clarified their long-term and annual performance goals to focus on the outcomes that are important to the American people.
- Eighty percent of programs are achieving their performance goals.
- Ninety-two percent of programs are measuring their efficiency, a relatively new activity for Government programs.
- Sixty-nine percent of programs are improving efficiency annually.
- Fourteen percent of programs improved their performance rating overall.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The Federal Government is working to ensure its **programs perform well.** Here we provide you information about where we're **successful** and where we **fall short**, and in both situations, what we're doing to **improve our performance** next year.

The content on ExpectMore.gov is developed by the U.S. Office of Management and Budget and Federal agencies.

Program reviews have helped increase accountability for results by giving the American people easy access to information about the performance of all Federal programs. Visitors to *www.ExpectMore.gov* can learn where the Government is successful, where it falls short, and in both situations, what Government programs are doing to improve their performance every year. They can also search for areas of interest and compare the performance of like programs.

To improve the results of Executive Branch programs, the Administration transmitted to the Congress the Government Reorganization and Program Performance Improvement Act in June 2005. The proposed Act would create two types of commissions—Sunset and Results—to regularly review the performance of Government agencies and programs and make recommendations for improvement. The Administration will work with the Congress to enact this important legislation to improve agency and program performance and reduce unnecessary cost for taxpayers.

IMPROVING HUMAN CAPITAL MANAGEMENT

Increasing Government effectiveness depends on increasing the effectiveness of Federal workers. As part of the PMA, agencies are reforming their performance appraisal systems to make them more useful to employees. Managers and employees are working together to develop clear goals for each individual employee that provide meaningful feedback on performance. This effort will increase understanding of how individuals' efforts contribute to agency achievements and help managers and employees devise strategies to improve performance. These enhanced appraisal systems are being tested at agencies and modified and expanded based on lessons learned.

Agencies are also working to identify the critical skills their employees need to achieve their agencies' missions and to ensure that their workforce has those skills. Since 2001, agencies have used hiring and training to reduce the gaps in these skills from five percent to one percent. The goal is to close all of the Government's key employee skills gaps by 2008.

Government-wide standards are in place to reduce the time it takes to make offers to and hire applicants for Federal jobs. The Government-wide average hiring time is now 34 days. Agencies are using data from surveys of applicants and managers to make further improvements that will help expedite the process for hiring high-quality employees.

The Government needs additional tools to ensure that it is using its workforce to its maximum potential. Designed in the late 1940s for a largely bureaucratic organization, the current personnel system is no longer applicable to today's mostly professional workforce that performs a wide range of roles at different proficiency levels. The current system does not sufficiently recognize employees for their work or hold managers accountable for how well they manage employees. The Administration has developed draft legislation, the Working for America Act, to require that agencies better manage, develop, and reward employees. The reforms in the legislation, which have been developed by agencies' Chief Human Capital Officers in conjunction with lawmakers, are based on lessons the Government has learned implementing alternative pay systems over the past 25 years, and focus on creating a better system that attracts a motivated and capable workforce. The Administration will work with the Congress to enact this legislation to enable the Government to make better use of its human capital resources and produce better results for the American people.

USING INFORMATION TECHNOLOGY MORE EFFECTIVELY

By strategically investing in information technology (IT) and professionally managing those investments, agencies are positioned to more rapidly, securely, and comprehensively provide information resources to Government users and the public. The PMA has helped agencies establish the disciplines that enable them to use their IT more effectively.

- Today 88 percent of IT systems are certified and accredited as compared to 21 percent in 2001. The goal is to make 100 percent of these systems secure by 2008.
- Sixty percent of agencies can quantify and articulate how the benefits derived from their IT investments exceed the costs.
- Forty-six percent of agencies have fully implemented earned value management in accordance with industry standards and on average are achieving at least 90 percent of cost, schedule and performance goals for all major IT systems.

Federal agencies have also improved citizens' online access to information, services, and benefits through the implementation of Electronic Government (E-Gov) projects. For example, citizens have a single online source for determining eligibility for Government benefit programs (*www.GovBenefits.gov*), viewing and commenting on proposed rules and regulations (*www.Regulations.gov*), and filing taxes online for free (*www.irs.gov*).

Additionally, through the consolidation of duplicative services and systems, E-Gov is streamlining agency business processes and saving taxpayer dollars. For instance, through use of an E-Gov Travel service provider, the Department of Labor has reduced average travel voucher processing costs from approximately $60 to $20 per travel voucher and has decreased average travel voucher processing time from seven to three days per voucher.

Moving forward, agencies will continue to use the Federal Enterprise Architecture, a business-driven blueprint for Government transformation, to reduce redundancy; facilitate information sharing across the Federal Government and with State and local governments; and maximize IT investments to better achieve mission outcomes.

IMPROVING FINANCIAL AND REAL PROPERTY MANAGEMENT

To ensure managers have current and accurate financial information for decision-making, and that the Federal Government properly accounts for taxpayer resources, agencies have strengthened their financial management practices.

- Agencies have established regular, disciplined accounting practices that allowed them to reduce the time it takes to prepare their financial reports. In 2006, for the second straight year, every major Federal agency completed its Performance and Accountability Report just 45 days after the end of the fiscal year.
- At the same time, agencies have improved the quality of their financial reporting. Nineteen out of 24 major agencies earned clean audit opinions and agencies reduced the number of material weaknesses reported from 62 in 2001 to 41 in 2006. The goals for 2008 are for 21 agencies to earn clean audit opinions and to reduce material weaknesses to 31.
- Agencies have also established for the first time ever a comprehensive inventory of all the Government's real property assets, and identified and disposed of the first $4.2 billion of $15 billion in unneeded property. They aim to dispose of an additional $3.6 billion by 2008.

USING COMPETITION TO GET TAXPAYERS THE BEST SERVICE AT THE LOWEST COST

Federal managers of commercial activities—such as IT support, accounting, and logistics—continue to use public-private competition to make common-sense decisions about whether our taxpayers are better served through performance by a reengineered Government organization or, alternatively, by the best qualified contractor. Agencies have projected that competitions completed during the last four years should generate a total of more than $6 billion in savings, or an estimated annualized savings of about $1 billion, through process reengineering, workforce realignments, better leveraging of technology, and operational consolidations. Agencies are tracking the implementation of their competitions to ensure results are realized. They already have identified close to $1 billion in actual savings and cost avoidances that enable resources to be focused on better Government services, such as directing air traffic and improving disability claims processing.

The Administration continues to work with the Congress to remove legislative restrictions on competitive sourcing, such as those that require agencies to choose the cheapest providers. While cost will always be a key consideration in every decision, agencies must be able to look at innovative solutions and enhanced services that can provide better value to the taxpayer. Elimination of these legislative constraints would allow taxpayers to get the best results possible from competitive sourcing.

New and better ways of delivering service to taxpayers will continue to be identified as agencies complete more competitions and bring cost control and performance efficiencies to a larger number of daily tasks. Most Federal agencies on the President's Management Council have successfully used competition to improve performance at their respective agencies. When fully implemented, competitive sourcing will save taxpayers more than $6 billion each year.

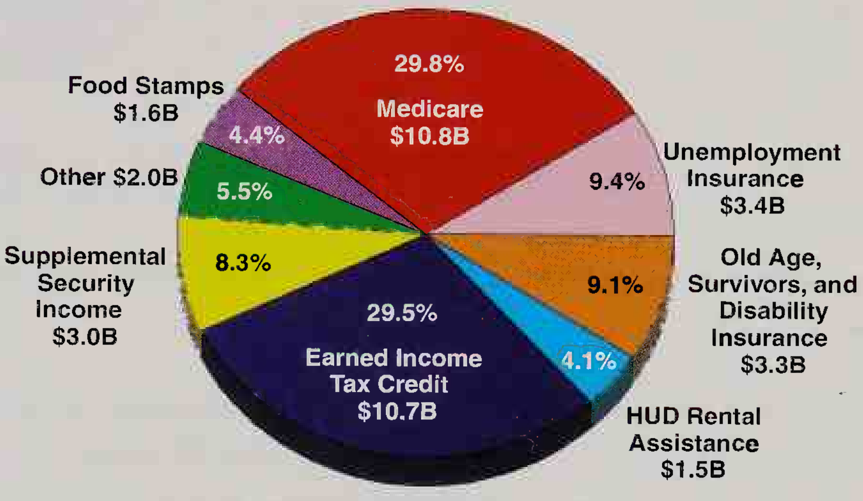
ELIMINATING IMPROPER PAYMENTS

Agencies are improving the accuracy of Federal payments by ensuring that dollars are properly accounted for and are going to the right person in the correct amount. Federal agencies have reduced improper payments in the programs originally reported in 2004 from $45.1 billion to $36.3 billion in 2006, a decrease of approximately 20 percent over two years. When improper payments were originally reported in 2004, only 30 programs estimated and reported the extent of their erroneous payments. Today, as a result of the Improper Payments Initiative, 30 additional programs report their erroneous payments, and by 2008, all major Federal programs defined as high-risk will report error measurements.

- The Department of Housing and Urban Development (HUD) continued to reduce improper payments in its rental assistance and public housing programs. As reported in the 2006 Performance and Accountability Report, $2 billion in annual improper payments have been eliminated since 2001, a 60-percent reduction. A key HUD action to reduce improper payments was the implementation of the Enterprise Income Verification System. This process allows housing administrators controlled access to existing Federal databases to verify amounts and sources of a subsidized household's income, including wages, Social Security benefits, and unemployment insurance benefits. Further improvements are expected as this system is phased in for all housing administrators.

- The Medicare program, for the second consecutive year, achieved a sharp reduction in its improper payment total. Specifically, the Department of Health and Human Services (HHS) reduced payment errors from $12.1 billion (5.2 percent) in 2005 to $10.8 billion (4.4 percent) in 2006. This amounts to a total reduction of more than $10 billion in improper payments since 2004. These reductions are due primarily to improved documentation of paid medical claims.
- The Department of Agriculture, for the seventh consecutive year, reduced the error rate for the Food Stamp program. The latest error rate of 5.8 percent was achieved through program simplification and improved State administrative practices.

Improper Payments Reduced to $36.3 Billion



NOTE: Includes data for the 30 programs that originally reported in 2004.

- The Social Security Administration's Old Age, Survivors, and Disability Insurance program significantly reduced erroneous payments.
- All remaining major Federal programs defined as high risk that are not currently reporting a measurement are now on track to report an error measurement. The School Lunch/Breakfast Program will report in 2007, and four HHS programs—Medicaid, Temporary Assistance for Needy Families, State Children's Health Insurance, and the Child Care Development—will be fully reporting by 2008.

USING MANAGEMENT SCORECARDS TO DRIVE RESULTS

With the help of the PMA, agencies have become more disciplined, transparent, and results-oriented in their management of programs, people, costs, and investments. For each management area, agencies identify clear goals and timeframes. They develop plans, identify responsible individuals, and apply resources to achieve these goals. Each initiative has a set of goals that all agencies strive to achieve and these are measured through a scorecard with red, yellow, and green ratings. An agency earns the top green status when it has successfully achieved all the desired disciplines in the initiative. Agencies also receive progress scores that assess how well they are implementing their planned improvements. Each quarter, a scorecard is posted at *www.whitehouse.gov/results/agenda/scorecard.html* reporting on agency PMA implementation efforts.

DEPARTMENT OF AGRICULTURE

Since 2001, the Administration:

- Opened new markets for American farmers and ranchers, leading to a record level for U.S. agricultural exports of $68.7 billion in 2006, up nearly 30 percent since 2001;
- Reduced hazardous fuels on 10.5 million acres of forest and doubled the yearly acreage coverage under the President's Healthy Forests Initiative;
- Enrolled over one million acres into the Wetlands Reserve Program to restore and protect these ecologically valuable lands;
- Provided assistance to one million farmers and ranchers resulting in conservation on more than 130 million acres of land;
- Served all eligible women, infants, and children seeking WIC services;
- Improved the accuracy of Food Stamp benefits from 91.34 percent to 94.16 percent, which eliminated about $800 million in erroneous payments in 2005;
- Strengthened domestic surveillance and testing to ensure rapid detection and response and provided assistance to 109 countries affected with highly pathogenic avian influenza to slow the spread of the disease abroad; and
- Encouraged the development of a domestic renewable fuels industry with incentives that resulted in the production of 2.6 billion gallons of ethanol and 254 million gallons of biodiesel.

The President's 2008 Budget:

- Ensures the continuation of a strong farm economy while fulfilling the Administration's commitment to reduce trade barriers;
- Initiates design of a high-level biosecurity laboratory that will focus on serious poultry diseases;
- Continues the heightened level of surveillance of wild and domesticated birds to provide an early warning system if highly pathogenic avian influenza arrives in the country;
- Maintains support for the Northwest Forest Plan by providing for the offer of 800 million board feet of timber to be harvested from Forest Service land;
- Provides $5.4 billion for WIC services to 8.3 million women, infants, and children per month; and
- Proposes to exclude retirement savings when determining eligibility for food stamps to make it easier for low-income people who receive food stamps to save for retirement.

FOCUSING ON THE NATION'S PRIORITIES

Reauthorizing the Farm Bill

The Administration is proposing changes to the current farm bill that will ensure the continuation of a strong farm economy and conservation programs that protect America's natural resources. The proposed changes will also provide support to programs that assist in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products. In addition, the proposal encourages future growth in agriculture by reducing barriers for the next generation of farmers and ranchers.

Protecting America

Food and Agriculture Defense Initiative. The President's Budget provides $341 million to continue efforts to protect the Nation's food supply and agriculture from threats, whether intentional or unintentional, by enhancing the Department of Agriculture's (USDA's) ability to detect, respond to and recover from incidents of disease, pest, or poisonous agents. The Budget includes additional funds to begin efforts to build a consolidated poultry research and biocontainment facility in Georgia and support research on food safety and emerging and exotic diseases.

USDA; Bob Nichols

Avian Influenza. The impact of an avian influenza pandemic on animals and the potential spread to the human population is a serious concern of the Administration. USDA plays an important role in preventing and responding to an infestation. The 2008 Budget includes $57 million for USDA activities, such as domestic surveillance and diagnostics, emergency preparedness and response, and technical assistance to other countries.

Developing Sustainable Forests

Forest Planning Rule. The Budget supports a new, more effective policy for forest planning that employs an Environmental Management System to improve performance and accountability and which is compliant with the National Environmental Policy Act.

Healthy Forests. Under the President's Healthy Forests Initiative and actions to implement the Healthy Forests Restoration Act, more than 15 million acres have been treated to reduce the threat of catastrophic wildfires. The 2008 Budget builds on this success by providing $291 million for hazardous fuels reduction projects, a more than four-fold increase since 2000. USDA will also implement recommendations to improve performance and focus on treating areas that provide the best improvement in forest and rangeland health.

Northwest Forest Plan. The Northwest Forest Plan is an integrated, comprehensive design for ecosystem management, intergovernmental and public collaboration, and rural community economic assistance involving nearly 25 million acres of Federal forests in western Oregon, Washington, and northern California. The Budget allows the Forest Service to offer the Plan's goal of 800 million board feet of timber in 2008.

Improving Cooperative Conservation

Since 2001, USDA's programs have been the strongest producer of conservation on working agricultural lands. The 2008 Budget continues USDA's record through all farm bill programs, particularly by fully funding the Wetlands Reserve Program (for a total of about $455 million) to achieve the program's full acreage enrollment goal of 2.275 million acres as authorized in the 2002 farm bill.

Promoting Nutrition Assistance Programs

As part of the Food Stamp program reauthorization, the Budget removes a barrier for low-income people to save by proposing to exclude all retirement and education savings accounts when determining household eligibility. The 2008 Budget also improves the integrity of the Food Stamp program by tightening overly broad waivers from eligibility criteria, and supports the families of the Nation's servicemen and women by ensuring that they do not lose food stamps due to combat-related military pay. The Administration looks forward to working with the Congress to enact these proposals and other measures to modernize the Food Stamp program.

The Special Supplemental Nutrition Program for Women, Infants and Children, more commonly known as WIC, serves the nutritional needs of low-income pregnant and postpartum women, infants, and children up to their fifth birthday. The Budget provides $5.4 billion for WIC services, funding an estimated 8.3 million beneficiaries in 2008. To address the rising costs of WIC administration, the President's Budget proposes to cap nutrition services and administrative funding at 2006 levels. In keeping with the Administration's promotion of childhood wellness and fitness, the Department is issuing updated WIC food packages that reduce maximum allowances of certain foods and increase the intake of fresh fruits and vegetables.

The 2008 Budget eliminates funding for the Commodity Supplemental Food Program (CSFP), which, in the limited areas where it is available, duplicates two of the Nation's largest Federal nutrition assistance programs—Food Stamps and WIC. The Budget provides funding to serve all eligible individuals who seek services from WIC and funds temporary benefits and outreach to help elderly households transition from CSFP to the Food Stamp program.

Assisting with Provincial Reconstruction

USDA participates in the Provincial Reconstruction Teams to bring agriculture, conservation, and rural development expertise to the reconstruction efforts in Iraq and Afghanistan. The $12.5 million included in the Budget will allow USDA to leverage the skills of a wide assortment of disciplines.

Encouraging Development in Rural Areas

Developing Renewable Energy. USDA is proposing an additional $20 million for research to develop new feedstocks for energy production on a region-by-region basis to help meet future energy demands. In total, the Department will provide $395 million in financial assistance to rural businesses and producers to develop and use renewable energy systems.

Supporting Housing for Rural Residents. The Budget proposes to increase opportunities for homeownership by increasing the loan level for USDA's single family housing guarantees to $4.8 billion. The 2008 Budget proposes to replace the direct single family housing loan program with this increase to the single family housing loan guarantee program. Utilizing the private banking industry to provide mortgage credit, guaranteed by the Federal Government, is a more efficient way to deliver mortgage credit.

Revitalization of USDA's portfolio of the multifamily housing program to preserve projects and protect tenants remains a key initiative. The President's Budget includes $28 million for a voucher program for displaced tenants when USDA-financed properties are paid-off. In addition, the Administration continues to work toward the enactment of legislation to authorize debt restructuring and other incentives for project sponsors to repair and rehabilitate their projects.

Department of Agriculture

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Commodities and International	3,010	2,983	3,284
Rural Development	2,454	2,009	2,050
Forest Service	4,211	4,191	4,127
Conservation	985	919	825
Food and Nutrition Service	5,515	5,512	5,638
Research	2,659	2,581	2,297
Marketing and Regulatory Programs	1,825	1,775	2,005
Central Administration	549	470	527
Subtotal, excluding items below	21,208	20,440	20,753
Receipts	−62	−44	−40
Mandatory savings proposals	—	−838	−487
Total, Discretionary budget authority	21,146	19,558	20,226
Memorandum:			
Budget authority from enacted supplementals	*1,385*	—	—
Additional funding requirements	—	*350*	—
Total, Discretionary outlays	22,265	22,355	21,941
Mandatory Outlays:			
Food and Nutrition Service	47,047	49,204	50,641
Commodity Credit Corporation	19,917	13,008	11,308
Crop Insurance	3,372	3,918	4,542
Natural Resources Conservation Service	1,514	1,702	1,742
Agriculture Marketing Service	1,512	1,195	1,300
Forest Service	934	804	496
Rural Development, including liquidating accounts	−86	−2,191	−2,044
Receipts, reestimates, and all other programs	−2,937	−1,224	−896
Total, Mandatory outlays	71,273	66,416	67,089
Total, Outlays	93,538	88,771	89,030

Department of Agriculture—Continued

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Credit activity			
Direct Loan Disbursements:			
Farm Loans	965	820	853
Commodity Credit Corporation	11,119	11,347	10,067
Rural Utilities Service	5,287	5,361	5,022
Rural Housing	1,391	1,562	1,464
Rural Business and Community Development	1,140	1,578	1,463
P.L. 480	39	10	35
All other programs	87	90	88
Total, Direct loan disbursements	20,028	20,768	18,992
Guaranteed Loan Disbursements:			
Farm Loans	2,146	2,569	2,125
Commodity Credit Corporation	1,030	1,899	1,952
Rural Utilities Service	3	—	—
Rural Housing	3,056	2,463	4,881
Rural Business and Community Development	622	1,076	1,268
Total, Guaranteed loan disbursements	6,857	8,007	10,226

DEPARTMENT OF COMMERCE

Since 2001, the Administration:

- Promoted a free-trade agenda, under which free trade agreements that feature increased intellectual property protections and expanded access for U.S. products and services have been signed or completed with 15 countries, and negotiations are underway with 10 additional countries. Annual U.S. exports have increased by $400 billion—benefiting businesses of all sizes and American consumers;
- Enhanced the quality and timeliness of key economic data; and
- Improved weather forecasts by expanding observations and investing in forecast model improvements. For example, the average lead time for tornado warnings has improved by 30 percent since 2001.

The President's 2008 Budget:

- Advances the President's 10-year American Competitiveness Initiative by investing in technological innovation through research and standards development in areas including nanotechnology, hydrogen energy, quantum information, climate change science, and disaster-resilient structures and communities;
- Supports critical demographic and economic statistics, including preparations for the 2010 decennial census and significant improvements to the accuracy and coverage of the Nation's principal economic indicators;
- Strengthens global intellectual property rights by supporting the Strategy Targeting Organized Piracy initiative's goal of ending trade in counterfeit goods. This initiative places additional intellectual property experts in high priority markets, trains foreign government officials in intellectual property protection, and educates foreign publics about the importance of intellectual property. The Budget also provides resources for harmonizing patent laws, and for supporting the negotiation of intellectual property sections of free trade agreements; and
- Advances the President's Ocean Action Plan through an innovative Oceans Initiative that promotes ocean science and research, protects ocean and coastal areas and the marine life they harbor, helps fishermen and commercial shippers through improved coastal information, and utilizes market-based approaches in fisheries management.

FOCUSING ON THE NATION'S PRIORITIES

Advancing U.S. Competitiveness through Technological Innovation, Economic and Demographic Data, International Trade, and Intellectual Property Protection

The President's 2008 Budget includes increases for Department of Commerce programs that foster U.S. leadership in science and technology. The Budget also sustains key Departmental programs that advance economic growth, such as international trade opportunities for businesses, fundamental information about the economy and population used by businesses and all levels of government, and critical protections for intellectual property.

American Competitiveness Initiative. The National Institute of Standards and Technology (NIST) promotes U.S. innovation and competitiveness by advancing measurement science, standards, and technology. As part of the President's 10-year American Competitiveness Initiative, NIST will target $594 million in 2008 for investments that are part of the Initiative, a more than 10-percent increase from similar investments proposed in the 2007 President's Budget. These investments will improve nanotechnology manufacturing capabilities; expand NIST's neutron facility to aid in characterizing novel materials in high-growth research fields; construct new, high-performance laboratories at NIST's Boulder, Colorado facility while reducing renovation costs; and improve understanding of quantum information science that has the potential to dramatically improve computer processing speeds and enable more secure communications.

Gathering the Most Accurate Data. Accurate information about U.S. economic and demographic conditions compiled by the Bureau of Economic Analysis (BEA) and the Census Bureau is necessary for well-informed business and Government decisions. The Budget provides increases for the Census Bureau to continue preparations for a reengineered, short-form census in 2010. In 2008, the Bureau will conduct a full dress rehearsal, and begin opening offices for the start of nationwide field activities in 2009. The Budget also provides increases for the data collection phase of the Economic Census and the Census of Governments, and to continue reengineering the Survey of Income and Program Participation. In addition, the 2008 Budget includes an initiative in BEA and Census to improve the accuracy and comprehensiveness of statistics on the U.S. economy. As the economy grows and evolves, the Nation's principal economic indictors need to be expanded and updated to ensure that important sectors are adequately covered. This initiative includes increases in Census to close the gap in service-sector coverage, and increases in BEA to begin incorporating research and development (R&D) investments into Gross Domestic Product (GDP) and other national accounts. Coverage of the service sector and intangibles like R&D are critical to improving the accuracy in the measurement of GDP and other economic indicators.

Opening New Markets. Improving international trade opportunities is crucial for U.S. economic growth, and the International Trade Administration (ITA) helps open and expand foreign markets for U.S. goods and services. The Budget facilitates fair competition in international trade, and provides funding for new trade-compliance experts in high-priority markets. ITA is working closely with the Office of the U.S. Trade Representative and other agencies to ensure that America's trading partners honor their World Trade Organization commitments and U.S. companies benefit from opportunities for greater market access. ITA also works to develop free trade agreements with other nations, to eliminate barriers to U.S. products, and to improve competitiveness of U.S. firms. In support of U.S. environment industries and U.S. climate change and environmental policies, ITA will assist in the Asia-Pacific Partnership on Clean Development and Climate. This Partnership aims to expand markets for cleaner, more efficient technologies and services among the United States, Australia, China, India, Japan, and South Korea.

Protecting Intellectual Property Rights. The Patent and Trademark Office (PTO) furthers intellectual property protection through the issuance of patents and registration of trademarks. The President's Budget continues to provide PTO full access to its fees in order to continue to improve the processing times and quality of patents and trademarks. The Budget also supports the work of the National Intellectual Property Law Enforcement Coordinating Council in coordinating the intellectual property protection efforts across the Government and the Strategy Targeting Organized Piracy (STOP!) initiative's efforts against global piracy and counterfeiting.

Enhancing the Ability to Observe, Protect, and Manage the Earth's Resources

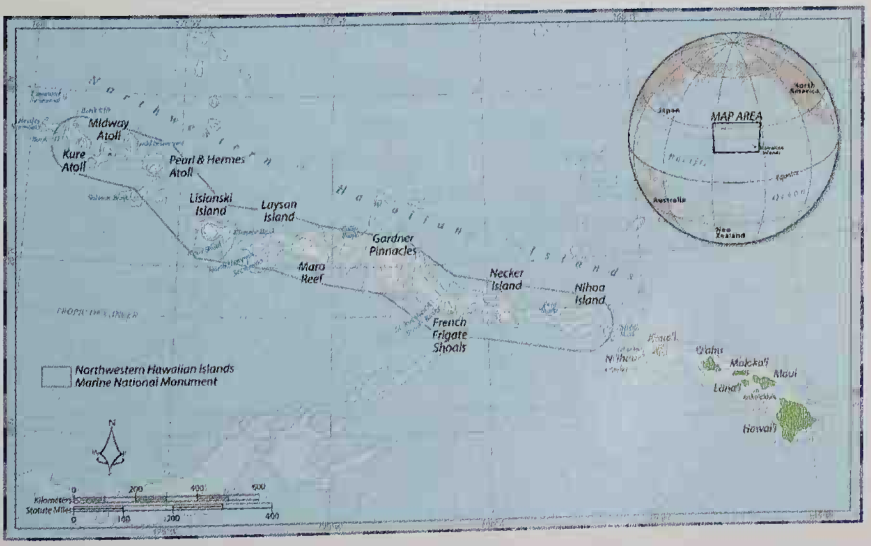
The President's 2008 Budget supports key programs in the National Oceanic and Atmospheric Administration (NOAA) that observe and predict changes in the earth's environment and manage the Nation's ocean and coastal resources.

Improving Weather Forecasting Capabilities. The President's Budget provides increases for weather forecasting activities to ensure continuing improvements in this important area. The Budget also continues support for development and acquisition of geostationary and polar-orbiting weather satellites to improve weather forecasting and understanding of the climate. In addition, the Budget funds increases for research on Unmanned Aircraft Systems, in order to improve monitoring and forecasting of hurricane tracks and intensity.

In response to the devastating tsunami that hit Southeast Asia in December 2004, NOAA developed an improved Tsunami Warning and Mitigation System to strengthen tsunami detection and warning for at-risk U.S. communities. The President's 2008 Budget supports increases for deployment of additional advanced technology deep-ocean buoy stations and tsunami inundation mapping, modeling, and forecast efforts.

Understanding Climate Change. The Budget increases climate programs that are aligned with the strategic programs of the President's Climate Change Research Initiative. These include water vapor process research to refine climate models, and the development of an integrated drought early warning and forecast system that will provide earlier and more accurate forecasts of drought conditions.

Protecting Natural Resources. The President's Budget includes over $100 million in new investments and program improvements within NOAA aimed at strengthening knowledge and management of ocean resources in support of the President's Ocean Action Plan. Projects to protect


Northwestern Hawaiian Islands
Midway Atoll
Kure Atoll
Pearl & Hermes Atoll
Lisianski Island
Laysan Island
Gardner Pinnacles
Maro Reef
Necker Island
Nihoa Island
French Frigate Shoals
Kaua'i
Ni'ihau
O'ahu
Moloka'i
Maui
Lana'i
Hawai'i
MAP AREA
Japan
North America
Australia
New Zealand
Northwestern Hawaiian Islands Marine National Monument
N
Kilometers 0 200 400 600
Statute Miles 0 100 200 400

The Budget supports the NWHI Marine National Monument, which was created by Presidential proclamation on June 15, 2006. It is the single largest conservation area under the U.S. flag, and the largest marine conservation area in the world. The extensive coral reefs found in the NWHI are home to over 7,000 marine species, one quarter of which are found only in the Hawaiian Archipelago. The NWHI are also of great cultural importance to Native Hawaiians, with significant cultural sites found on the islands of Nihoa and Mokumanamana.

valuable habitat include funding for the recently designated Northwestern Hawaiian Islands (NWHI) Marine National Monument, and support for a project to restore over 990 stream miles of habitat for endangered Atlantic salmon and other fish species. The Budget also provides funds to ensure sustainable access to seafood through development of offshore aquaculture opportunities, as well as better management of fish harvests. Market-based approaches—such as Limited Access Privilege systems (LAPs) that provide exclusive privileges to harvest a quantity of fish—move fisheries management away from cumbersome and inefficient regulatory practices and have been shown to lead to lengthened fishing seasons, improved product quality, and safer conditions for fishermen. The Administration has set a goal of doubling the number of LAP systems in use by the year 2010. These goals and projects contribute to the implementation of recently enacted legislation, including the Magnuson-Stevens Fishery Conservation and Management Reauthorization Act of 2006, and the Marine Debris Research, Prevention, and Reduction Act.

New investments in ocean science are aimed at monitoring and better understanding marine ecosystems. Funding is included for ocean observations to move toward an operational ocean monitoring network. Support is also provided for priority research areas, including ocean-climate connections, marine ecosystem responses to natural events and management strategies, and the development of new sensor technologies to monitor marine ecosystem parameters, such as harmful algal blooms and marine populations.

Department of Commerce

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Departmental Management:			
Salaries and Expenses, other	50	30	64
Emergency Guaranteed Loan Program accounts	—	−39[1]	−49[1]
Office of the Inspector General	21	22	23
Subtotal, Departmental Management	71	13	38
Economic Development Administration	281	261	203
Bureau of the Census	801	797	1,230
Economics and Statistics Administration	79	79	85
International Trade Administration	401	394	412
Bureau of Industry and Security	75	75	79
Minority Business Development Agency	30	30	29
National Oceanic and Atmospheric Administration (NOAA):			
Operations, Research, and Facilities	2,790	2,445	2,844
Procurement, Acquisition and Construction	1,064	997	980
Other accounts	−3	−60	−12
Subtotal, NOAA	3,851	3,382	3,812

Department of Commerce—Continued

(In millions of dollars)

	2006 Actual	Estimate 2007	Estimate 2008
Patent and Trademark Office (PTO):			
Program Level	1,665	1,776	1,920
Fees	–1,665	–1,776	–1,920
Subtotal, PTO	—	—	—
Technology Administration	6	2	2
National Institute of Standards and Technology (NIST):			
Scientific and Technical Research Services	398	398	504
Industrial Technology Services	177	92	46
Construction of Research Facilities	174	68	94
Subtotal, NIST	749	558	644
National Telecommunications and Information Administration	40	37	19
Total, Discretionary budget authority	6,384	5,628	6,554
Memorandum: Budget authority from enacted supplementals	*242*	—	—
Total, Discretionary outlays	6,453	5,993	6,467
Mandatory Outlays:			
Digital Television Fund programs:			
Public Safety Communications Interoperability grants	—	24	184
Other programs	—	31	293
All other	62	187	161
Mandatory Offsetting Receipts [2]	–133	–44	–492
Total, Mandatory outlays	–71	198	146
Total, Outlays	6,382	6,191	6,613
Credit activity			
Direct Loan Disbursements:			
Fisheries Finance Direct Loan Financing account	71	126	39
Total, Direct loan disbursements	71	126	39

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[1] The Budget assumes that if the Department is funded under a full-year 2007 continuing resolution, the 2007 cancellation would not be enacted, which would leave $49 million available for cancellation in 2008.

[2] 2008 mandatory offsetting receipts include spectrum auction receipts (-$477 million) that fund mandatory programs created by the Deficit Reduction Act of 2005 in the National Telecommunications and Information Administration.

Department of Commerce

[illegible]

DEPARTMENT OF DEFENSE

Since 2001, the Administration:

- Liberated two nations with more than 50 million people, and reduced safe havens for terrorists;
- Developed a new national defense strategy and established four new military Commands to lead the Global War on Terror, transform the military, protect the homeland, and defend against long-range attack;
- Launched the most significant transformation of the Army in a generation, transitioning from a Division-based Army to more lethal, agile, and capable Brigade Combat Teams;
- Transformed America's global defense posture, allowing forces to deploy quickly in times of crisis and ensuring a new global military presence prepared for 21st Century challenges;
- Activated an initial Missile Defense system to protect America against attack;
- Delivered aid to millions affected by natural disasters, at home and abroad;
- Raised military pay by about 28 percent and enhanced special pays and bonuses;
- Converted over 26,000 military positions to civilian positions to relieve strain on the military force and ensure all military personnel are performing "military essential" activities; and
- Established the National Security Personnel System, now serving 77,000 civilian employees, creating a flexible and responsive 21st Century national security workforce.

The President's 2008 Budget:

- Provides $481.4 billion for the Department of Defense's base budget—a 62-percent increase over 2001—to ensure a high level of military readiness as the Department develops capabilities to meet future threats, defends the homeland, and supports the all-volunteer force and their families;
- Supports operations in the Global War on Terror by providing an additional $93.4 billion in supplemental funds for 2007 and $141.7 billion for 2008, including funds to accelerate efforts to train and equip Iraqi and Afghan Security Forces;
- Continues ground force modernization and the expansion of Special Operations Forces;
- Enhances missile defense capabilities by adding additional interceptor missiles and sites to expand coverage against new threats;
- Provides a 3.0-percent increase in basic military and civilian pay; and
- Aligns military health care premiums and copayments for retirees under 65 years of age with general health insurance plans.

FOCUSING ON THE NATION'S PRIORITIES

The Department of Defense (DOD) continues to wage a global war against terrorism and prepare for other challenges in the 21st Century. As the U.S. military fights the Global War on Terror, DOD is reconstituting the forces engaged in those operations. To respond to evolving and adaptive enemies, DOD is building the irregular and joint warfighting capabilities needed to meet future threats to the Nation's security, while sustaining traditional advantages in U.S. conventional warfighting capabilities. The Department also takes care of its most valuable asset—its people—supporting the members of the all-volunteer force and their families.

Prevailing in the Global War on Terror

As a Nation at war, the top priority is to ensure our servicemembers have the resources necessary to fight and succeed. This request protects and supports U.S. forces as they fight America's battles, and strengthens U.S. capabilities to advance American interests in the Global War on Terror.

To prevail in the Global War on Terror, the military Services must continuously prepare forces to conduct missions across a spectrum of military operations whether fighting traditionally armed and organized adversaries or other enemies like those faced today in Iraq and Afghanistan. The U.S. military continues to improve joint warfighting capabilities, and to build or strengthen the security capabilities of U.S. global partners, both critical to waging war.

To better enable military forces to address these challenges without undue long-term stress, the 2008 Budget includes funding for additional permanent forces in the Army and Marine Corps, increasing the size of the Army from the currently authorized level of 482,400 to 547,400 by 2012 and the Marine Corps from the currently authorized level of 175,000 to 202,000 by 2011. This increase will reduce stress on active duty and reserve forces, ensuring heightened readiness for all missions.

Included with the 2008 Budget is a request for $93.4 billion in supplemental appropriations for 2007 to address the military's needs for the Global War on Terror above the $70.0 billion provided in the 2007 Defense Appropriations Act. In addition, the Budget includes a request of $141.7 billion in emergency appropriations to fund continuing costs of the Global War on Terror in 2008. This request assumes essentially the same level of activity in 2008 as in 2007. As activity on the ground evolves, the Administration may adjust the requested amount or its allocation through a Budget amendment or subsequent supplemental request. To date, $426.8 billion has been appropriated for DOD operations in the Global War on Terror. The funding requested in the President's Budget would increase this amount to $661.9 billion.

Increasing Support for Defense Operations in the Global War on Terror
(in billions of dollars)

Enacted							Enacted To Date	Request		Total
2001	2002	2003	2004	2005	2006	2007		2007	2008	
9.3	8.3	62.2	62.0	100.5	114.5	70.0	426.8	93.4	141.7	661.9

Note: Funding levels exclude budget authority for Operation Noble Eagle that covers homeland defense and civil support missions in effect since the terrorist attacks on September 11, 2001. Levels include funding for the Intelligence Community.

The cost of military operations is the largest component of this funding in both 2007 and 2008. Another priority in this request is to ensure that the warfighters have the tools and equipment that they need. This funding includes programs to replace or refurbish military equipment lost or damaged in combat or through wear and tear. In addition to the $23.6 billion already provided in the 2007 Defense Appropriations Act for these programs, the request includes $13.9 billion for 2007 and an estimated $37.6 billion for 2008.

Improvised Explosive Devices (IEDs) significantly threaten U.S. forces in Iraq and Afghanistan. DOD created the Joint IED Defeat Organization to develop and procure technologies that disarm and destroy IEDs before they detonate; locate and disrupt the networks of enemies that build and place IEDs; and train U.S. forces to detect and disable IEDs in hostile environments. For the Joint IED Defeat Organization, the President requests an additional $2.4 billion in supplemental funds for 2007 and $4.0 billion in emergency funds in 2008.

As the table shows, the request also increases funds for training and equipping Iraqi and Afghan Security Forces so that they can take on greater responsibility of securing their own countries. As of January 2007, there were over 140 Iraqi army combat and police battalions and about 48 Afghan army combat and police battalions actively engaged in operations to secure the future of their respective nations.

Targeting Efforts to Train and Equip Security Forces

(in billions of dollars)

	2007			2008 Request
	Enacted	Proposal	Total	
Iraq	1.7	3.8	5.5	2.0
Afghanistan	1.5	5.9	7.4	2.7

Developing Capabilities to Meet Future Threats

Even as DOD focuses on military operations in Iraq and Afghanistan, it must prepare for future challenges and conflicts through organizational and technological transformations.

Reorganizing the Army. The Army continues to transform successfully from a Cold War division-centric force to a modular force comprised of more flexible and self-sustaining fighting units with increased mobility and combat power. To date, 51 combat brigades and 131 combat support brigades have been converted, or are converting, to light, medium, and heavy modular units. The 76 planned combat brigades include seven Stryker armored fighting vehicle-equipped brigades that have proven extremely effective in Iraq. In parallel, Army aviation units continue to modernize with upgraded Apache, Blackhawk, and Chinook helicopters, and will soon acquire a new Armed Reconnaissance Helicopter and Joint Cargo Aircraft. The Budget provides a total of $7.6 billion for Army Modularity in 2008.

Expanding the Special Operations Command. The 2008 Budget strengthens the ability of the Special Operations Command (SOCOM) to lead, plan, and execute operations against terrorist networks worldwide. SOCOM retains the ability to respond to a broad range of threats with specially-trained, flexible units, providing the United States with the power to meet diverse challenges whenever and wherever they may arise. Continuing its growth over the last several years, SOCOM will add nearly 3,000 Special Operators in 2008 and more than 10,000 over the next five years, in an effort to build force structure without diluting the quality training that is critical to combat global terrorism.

Building Partnership Capacity. As the Global War on Terror continues, efforts to shape environments to minimize the likelihood that they will become incubators for future enemies will require not only direct action by the military, but a more creative approach to supporting allies and friends. To that end, the Administration will request new authorities and over $500 million in funding to enhance its ability to train and equip allies, and provide humanitarian assistance where it is needed.

Aligning Infrastructure and Requirements. To ensure that DOD's domestic bases were structured appropriately to support operational requirements, the Administration conducted a Base Realignment and Closure (BRAC) review in 2005. This independent review identified excess infrastructure, which is no longer necessary to defend our Nation and diverts resources that could be better spent to confront today's threats to national security. The review recommended closing 25 installations and realigning or consolidating 24 major installations. The 2008 request provides $8.2 billion for DOD to continue its efforts to meet the recommendations accepted by the BRAC Commission and subsequently enacted.

Adjusting Global Posture. In August 2004, the President began working with new partners around the world to increase military effectiveness and announced the most comprehensive restructuring of U.S. military forces overseas since the end of the Korean War. The Global Posture Initiative shifts Cold War bases to new areas of strategic importance. This new basing strategy will provide the United States with rapid access to areas where the U.S. military is more likely to be engaged, but where a large permanent presence is not needed. When complete, the U.S. base infrastructure overseas will be reduced and 60,000–70,000 troops will have returned to the United States. To date, the United States has scaled back its presence in Saudi Arabia; moved out of Seoul, Korea and redeployed to the southern Korean peninsula; reduced troop levels in Germany; and begun negotiations with the Government of Japan to move Marine units from Okinawa to Guam. The Budget provides about $1.0 billion for this effort in 2008, which is estimated to cost $5.3 billion through 2012.

Improving Technology to Support U.S. Troops. DOD continues a broad range of transformation efforts that affect weapon systems acquisition, joint warfighting doctrine, and a variety of internal processes. In 2008, DOD will field more Unmanned Aerial Vehicles, with the Predator force increasing to 170 aircraft, eventually supporting 21 simultaneous surveillance orbits. The Budget also provides funds for the first CVN-21 aircraft carrier. Three other classes of transformational warships—SSGN cruise missile submarines, Littoral Combat Ships, and DDG-1000 destroyers—were approved in previous years. The 2008 Budget also supports new global capabilities, including $315 million for a new Air Force tanker, $175 million for a conventional Trident missile, and $310 million to deploy a missile defense site in Europe.

U.S. Army; Staff Sgt. Michael Carden

DOD is working aggressively to develop and deploy increasingly effective equipment—such as chemical and biological suits and other protective gear—and procedures to protect military forces that may be exposed to chemical or biological warfare agents. In 2008, it will replace older gear whose expiration date is approaching and invest in collective protection equipment, such as field hospitals and protective shelters, and in deployable diagnostic equipment. DOD will develop broad spectrum compounds and other medical countermeasures against bio-engineered threats and non-traditional agents and will make investments in improved early attack warning and decontamination. The Budget includes $1.6 billion for the research, development, and procurement of these items.

Defending the Homeland

To defend the homeland and provide for the security of the American people, DOD must have the capabilities necessary to deter, detect, and, when necessary, defeat direct attacks against U.S. territory, citizens, and key infrastructure from the air, land, sea, space, and cyberspace. Among the initiatives to support the defense of the homeland, the 2008 Budget provides resources to prevent terrorist acquisition and use of weapons of mass destruction (WMDs) and to expand missile defense capabilities. In addition to these initiatives, DOD will maintain its significant advantages in conventional warfighting capabilities to deter or defend against external attack, including opportunistic acts of aggression or coercion.

DOD plays a central role in America's efforts to prevent proliferation of WMDs. The Cooperative Threat Reduction (CTR) program supports the Global War on Terror by consolidating, securing, and dismantling WMDs and the associated infrastructure in Russia and other countries of the former Soviet Union. CTR is nearing the completion of several key projects, including the construction of a chemical weapons destruction facility at Shchuch'ye, Russia, and security upgrades at Russian warhead storage sites. The President's Budget supports new work by the CTR program to upgrade security at vulnerable borders and expand the Biological Threat Reduction program. Both of these efforts are underway in countries of the former Soviet Union other than Russia. The 2008 request for CTR is $348 million.

DOD continues to invest, improve, and field both land- and sea-based missile defense systems to protect the homeland under the auspices of the Missile Defense Agency (MDA). In 2008, additional ground-based interceptors will be deployed in Alaska and new missiles will be added to the sea-based Aegis system. In addition, the Sea-Based X-band Radar is undergoing final testing before moving to Adak, Alaska, where it will begin its operational mission to track targets as part of an integrated system to defend the United States from missile attacks. The 2008 Budget provides $8.9 billion for MDA to develop, test, and field components to enhance the existing defensive capability already in operation in the Pacific.

Supporting the All-Volunteer Force and their Families

Compensating Servicemembers. The President's Budget continues initiatives to strengthen recruitment and retention of the all-volunteer force; ensure servicemembers have the best training, equipment, and force protection; maintain a high quality of life for Active and Reserve personnel; ensure the finest treatment, rehabilitation, and future opportunity for personnel wounded in action; and compensate servicemembers commensurate with the sacrifice they and their families make for the Nation.

Over the past several years, the Administration has increased basic pay by about 28 percent; more than doubled special pays and added special retention bonuses for servicemembers deployed in support of Operations Iraqi Freedom and Enduring Freedom; enhanced pay and allowances, commissary, and health benefits for all reservists; added education benefits for reservists activated for the war; and upgraded many programs designed to ensure a good quality of life for servicemembers and their families. These improvements have resulted in record retention, especially among frontline troops, and recruiting success.

The Administration continues to examine military compensation to ensure it remains competitive and reflects the compensation strategies demanded by employees in today's robust economy. Total average compensation per servicemember now exceeds $100,000, including the costs of providing health, retirement, and other benefits. As the table shows, some of these costs are in deferred in-kind or cash incentives, though the average military "salary," defined as Basic Pay, the Basic Allowances for Housing and Subsistence, and associated tax savings, exceeds $90,000 for officers and $46,000 for enlisted personnel. As of April 2007, military members are compensated well above comparably aged and educated civilians. A more detailed explanation of compensation costs can be found in the Federal Employment and Compensation chapter of the *Analytical Perspectives* volume of the Budget.

Military Compensation Covers More Than Just Pay
(percent of compensation)

Type of Compensation	Military	National Average*
Current Cash	38%	84%
Current In-Kind (e.g., housing)	9%	9%
Deferred In-Kind (e.g., retiree health care)	29%	—
Deferred Cash (e.g., retired pay)	24%	7%

* Bureau of Labor Statistics, March 2005.

DOD also provides counseling programs to support servicemembers and their families, for example, helping them prepare for the emotional and financial challenges associated with war-related deployments. To provide assistance to those who have sacrificed for this Nation, the 2008 Budget includes $45 million, split between funding in the base budget and emergency supplemental appropriations, for the Severely Injured Support Center, which provides counseling, assistance, and advocacy for wounded warriors as they adapt to day-to-day life in their local communities.

Providing Access to Quality Health Care. The Administration is committed to ensuring that servicemembers and their families have access to high quality medical care throughout the world. To support these efforts, the Budget provides $22.5 billion in the Defense Health Program (including $1.9 billion in anticipated savings from beneficiary cost sharing).

DOD achieved a major milestone with the launch of its global electronic health record system, which will ultimately serve more than nine million servicemembers, retirees, and their families worldwide. In 2008, the system will be active in 60 percent of military hospitals, which is a major step towards achieving the President's goal of making electronic health records and costs available to a majority of Americans.

DOD continues to monitor rising healthcare costs and is working to ensure that the program is managed as efficiently as possible. Most of the cost growth is fueled by expansions in benefits and eligibility for Reservists, and the increasing attractiveness of the military health program (TRICARE) relative to private sector plans available to second-career military retirees. In order to sustain the health benefit for all eligible beneficiaries, the 2008 Budget includes a legislative proposal that aligns TRICARE premiums and copayments for retirees under 65 years of age with general health insurance plans. In addition, the Administration will move quickly to review and submit legislation, if appropriate, for recommendations or improvements to the proposal that may be offered by the DOD Task Force on the Future of Military Health Care.

Strengthening the U.S. Intelligence Community

Intelligence plays a central role in protecting U.S. national security. Policy makers, military commanders, and law enforcement personnel need timely, accurate information regarding the capabilities and intentions of foreign powers, terrorists, and other international actors. Since 2001, the Administration has invested significant resources to increase U.S. intelligence capabilities across a wide variety of disciplines.

The Intelligence Reform and Terrorism Prevention Act of 2004, reorganized the Intelligence Community and created the position of the Director of National Intelligence (DNI) to manage the Intelligence Community more effectively. The DNI's National Counterterrorism Center has drafted the National Implementation Plan to improve the overall coordination of agency programs supporting the Global War on Terror. Working with the Departments of State, Defense, Justice, Homeland Security, Energy, and the Treasury, the DNI continues to implement the reforms initiated by the Intelligence Reform Act.

The 2008 President's Budget sustains and builds on these investments and organizational changes. In particular, the Intelligence Community is focused on improving its human intelligence, signals intelligence, data processing, and analytic capabilities. For example, the Budget supports implementation of the President's directive to increase the number of Central Intelligence Agency case officers and analysts by 50 percent. The Budget also supports improved sharing of intelligence information through the Information Sharing Environment, a Government-wide effort to share terrorist information among interested parties in Federal, State, and local governments.

Department of Defense

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Military Personnel	109,114	110,901	116,280
Operation and Maintenance	139,224	148,616	164,714
Defense Vessel Transfer receipt account	−69	—	—
Legislative proposal, Defense Health Enrollment Fees and Deductible (non-add)	—	*−249*	*−1,862*
Procurement	77,672	81,256	101,679
Research, Development, Test and Evaluation	72,039	75,125	75,117
Military Construction	8,043	7,480	18,233
Family Housing	3,967	3,794	2,932
Revolving and Management Funds	657	2,427	2,454
Adjustment for 2007 Administration proposed policy	—	5,878	—
Subtotal	410,716	435,477	481,406
Budget authority from enacted supplementals[1]	123,798	70,000	—
Emergency funding for the Global War on Terror[1]	—	93,382	141,665
Subtotal	123,798	163,382	141,665
Total, Discretionary budget authority	534,514	598,859	623,071
Total, Discretionary outlays	498,799	547,287	581,329
Mandatory Outlays:			
Existing law	558	1,628	2,023
Legislative proposal, National Defense Stockpile Sales	—	—	−69
Total, Mandatory outlays	558	1,628	1,954
Total, Outlays	499,357	548,915	583,283

[1] Appropriated or requested funding levels do not reflect actual or anticipated transfers for the State Department or the U.S. Coast Guard. These funding levels also reflect the Intelligence Community Management Account's request for the Global War on Terror (base funding is not included).

DEPARTMENT OF EDUCATION

Since 2001, the Administration:

- Reformed K–12 education through the No Child Left Behind Act, which is raising academic standards for students, improving accountability in schools and States, and expanding parental choice. No Child Left Behind funding has increased 34 percent since 2001;
- Aligned the Individuals with Disabilities Education Act with No Child Left Behind accountability systems to improve the quality of education for students with disabilities and ensure that all students achieve high academic standards;
- Reformed the Federal student aid programs to make them more cost efficient and targeted additional aid to the neediest students, including 5.2 million Pell Grant recipients in 2006; and
- Assessed 89 programs using the Program Assessment Rating Tool and used the results to guide budget decisions and programmatic reforms.

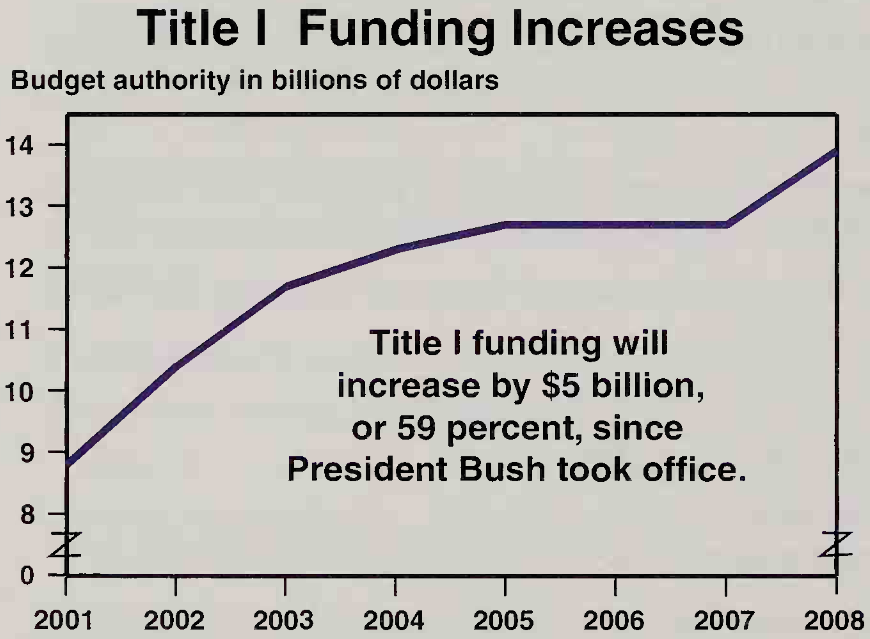
The President's 2008 Budget:

- Proposes reauthorization of the landmark No Child Left Behind Act;
- Provides a $1.7 billion increase for schools in low-income communities, including a $1.2 billion increase for the core Title I program and $500 million for schools in need of improvement;
- Requests $300 million to enable low-income students in low-performing schools to transfer to a public or private school of their choice or receive intensive supplemental services;
- Increases the Pell Grant maximum award from $4,050 to $5,400 over five years, to help over 5.4 million low-income students access quality higher education each year; and
- Exercises spending restraint by terminating 43 low-priority or non-performing programs and redirecting funds to priorities that will deliver better results for students and families.

FOCUSING ON THE NATION'S PRIORITIES

Reauthorizing the No Child Left Behind Act

The central goal of the 2001 No Child Left Behind Act (NCLB) is for all students to read and do math at grade level or above by 2014. NCLB refocused Federal education programs on the principles of stronger accountability for results, more choices for parents and students, greater flexibility for States and school districts, and the use of proven instructional methods. NCLB is moving education in the right direction. Test scores are rising, and in most States, the learning gap between poor and non-poor students, and between black, Hispanic, and white students, is starting to close. In 2007, President Bush will work with the Congress to reauthorize NCLB while maintaining the Act's core principles. Highlights of the President's plan include the following:



Source: Department of Education.

The 2008 Budget proposes a $1.2 billion increase for Title I, the cornerstone NCLB program. With this increase, Title I will have increased by 59 percent since 2001.

Helping Schools in Need of Improvement. The Budget provides $500 million that, along with over $500 million reserved from Title I, will help improve schools that have not met their NCLB student achievement goals for at least two years, with a particular focus on schools that have been low-performing for five years or more. This funding will ensure that States and school districts have the capacity to turn around the schools that need the most help.

Enhancing Opportunities for Parental Choice. While the Administration expects most schools in need of improvement to turn around and meet their NCLB goals, some schools will not be able to do so quickly. The President's Budget includes $300 million for two new programs to offer educational alternatives to low-income students in low-performing schools. Schools that have been low performing for five years or more will be required to offer Promise Scholarships, and competitive grants will be available to communities willing to launch Opportunity Scholarships to further expand parents' options. These scholarships will help parents cover some of the cost of attending the public or private school of their choice or the cost of intensive supplemental educational services, such as tutoring.

Reforming High Schools and Improving College Readiness. NCLB provides an important framework for transforming high schools in order to prepare students for college and the workplace. However, less than 10 percent of NCLB funds go to high schools, limiting the law's current impact. The Budget provides $13.9 billion for Title I, a $1.2 billion increase, which devotes new funds to high schools in proportion to the number of low-income students they educate, while also increasing funding for elementary schools. In addition, the Administration proposes to add two tests in two new high school grades, including an assessment of college readiness. Together with the existing tests in reading and math in grades 3–8 and once in high school, these assessments will help parents and teachers know how their schools are performing across all grades and how well students are being prepared for success after graduation. The Budget provides $412 million for these State assessments.

Ensuring our Future Competitiveness. To remain competitive in the global economy, every high school graduate needs strong analytical skills in mathematics and science. In support of this objective, the Budget provides a $365 million increase for math and science education programs as part of the President's American Competitiveness Initiative (ACI). ACI includes an array of research and education programs that focus on improving the Nation's long-term economic competitiveness. A $250 million Math Now proposal would support a new math program to help elementary school teachers prepare students for rigorous coursework and a new middle school program to identify and provide targeted services to boost achievement of middle school students who are not proficient in math. Other ACI investments include a $90 million increase for the Advanced Placement program to train 70,000 teachers over five years, with a focus on math and science, and $25 million for an Adjunct Teacher Corps to help recruit 30,000 professionals, especially professionals from technological fields, over the next eight years to teach in high-need schools.

President Bush and Secretary Spellings visit with a teacher and students at Parkland Magnet Middle School for Aerospace Technology, April 18, 2006, in Rockville, Maryland.

Providing Access to and Raising Quality in College Education

Access to quality postsecondary education for America's students is crucial to U.S. economic prosperity. In 2008, the Federal Government will provide nearly $91 billion in financial aid to 10.4 million students to help pay for college. In September 2006, the Secretary's Commission on the Future of Higher Education offered recommendations to improve the Nation's postsecondary education system. It called for more resources, student aid system reforms, and greater accountability and transparency. The Budget includes several reforms that are aligned with the Commission's recommendations, including the following:

Increasing Need-based Grant Aid. The Pell Grant program remains the single largest source of grant aid, helping 5.2 million students in 2006. The Budget increases the maximum Pell award from $4,050 to $5,400 over five years. The Administration also proposes to increase Academic Competitiveness Grants for high achieving, low-income students.

Ensuring Accountability and Transparency in Higher Education. Taxpayers, parents, and students lack clear and comprehensive information on the outcomes of their investments in higher education. The Budget provides $25 million for a pilot initiative for collecting and analyzing student data to measure outcomes such as graduation rates and academic performance. The pilot would assess the feasibility of implementing a system that would safeguard privacy of individual data.

Restraining Federal Spending

Reforming the Student Aid System. The Deficit Reduction Act of 2006 included several important reforms to help make the Federal student loan programs more efficient while increasing benefits to students. The President's Budget builds on these reforms by reducing Government subsidies to lenders and guaranty agencies that are higher than necessary while still ensuring that all eligible students receive loans, and eliminating the poorly targeted Perkins Loan and Supplemental Educational Opportunity Grant programs. Savings from these reforms will allow the Administration to increase grant and loan aid, such as larger Pell Grants and Academic Competitiveness Grants, in a better targeted, fiscally responsible manner. With these reforms, the Administration remains committed to making both the direct and guaranteed student loan programs more efficient, in order to continue the mutually beneficial competition that has led to better services for students and schools and lower costs in both programs.

Terminating and Reducing Discretionary Programs. The Budget proposes to terminate 43 programs, including many that the Program Assessment Rating Tool has shown to be ineffective or unable to demonstrate results. These terminations will save $2.2 billion, all of which will be redirected toward priority programs, including programs that support the reauthorization of NCLB.

Department of Education

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
No Child Left Behind Act Reauthorization			
Title I Grants to LEAs	12,713	12,713	13,910
School Improvement Grants	—	—	500
Reading First/ Early Reading First	1,132	1,122	1,136
Striving Readers	30	32	100
American Competitiveness Initiative	32	32	397
Teacher Quality State Grants	2,887	2,887	2,787
Teacher Incentive Fund	99	4	199
Safe and Drug Free Schools programs	488	524	324
IDEA Part B State Grants [1]	10,583	10,492	10,492
Career and Technical Education State Grants [2]	1,182	1,182	600
Adult Education	573	573	573
Federal Student Aid:			
Pell Grants—Discretionary Funding, Legislative proposal	13,045	12,607	13,223
Pell Grants—Mandatory Funding (non-add, Legislative proposal)	—	—	*2,216*
Supplemental Educational Opportunity Grants	771	771	—
Federal Work-Study	980	980	980

Department of Education—Continued

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Higher Education:			
TRIO programs	828	828	828
GEAR UP	303	303	303
National Security Language Initiative	—	—	35
Historically Black College and Graduate Institutions	296	296	296
Hispanic Serving Institutions	95	95	95
All other	10,516	10,545	9,218
Total, Discretionary budget authority [3]	56,553	55,985	55,995
Memorandum: Budget authority from enacted supplementals	*1,885*	*179*	—
Total, Discretionary outlays	58,264	58,933	54,971
Mandatory Outlays:			
Federal Direct Student Loans, Legislative proposal	6,258	4,310	466
Federal Family Education Loans, Legislative proposal	26,307	1,399	–222
Academic Competitiveness Grants	44	867	843
All other	2,574	2,551	2,565
Total, Mandatory outlays	35,183	9,127	3,652
Total, Outlays	93,447	68,060	58,623
Credit activity			
Direct Loan Disbursements:			
Federal Direct Student Loans (FDSL)	12,387	13,153	14,306
FDSL Consolidation	19,647	4,523	4,943
Historically Black College and University Capital Financing	42	170	249
Total, Direct Loan disbursements	32,076	17,846	19,781
Guaranteed Loan Disbursements:			
Family Federal Education Loans (FFEL)	45,821	50,436	56,024
FFEL Consolidation	72,036	27,021	31,862
Total, Guaranteed loan disbursements	117,857	77,457	87,886

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[1] Program level. Budget authority is $11 million less than program level in 2006 and $791 million less than program level in 2008.

[2] Program level. Budget authority is $791 million more than program level in 2008.

[3] Program level. Budget authority is $9 million less than program level in 2006 rather than $11 million noted above, due to rounding. The Deficit Reduction Act of 2005 moved Section 458 Federal Student Aid funds for administrative expenses from the mandatory to the discretionary side of the budget in 2007. For comparability purposes, this change is also reflected in 2006.

DEPARTMENT OF ENERGY

Since 2001, the Administration:

- Launched the American Competitiveness Initiative, a program that will double key investments in the physical sciences, which includes the Department's Office of Science basic research programs;
- Began the Advanced Energy Initiative, accelerating technology breakthroughs to diversify the Nation's sources of energy for powering homes and businesses and to reduce dependence on foreign sources of oil by changing how the country fuels its automobiles. Developed international partnerships to accelerate research and the use of clean energy technologies, including the Asia-Pacific Partnership on Clean Development and Climate, the International Partnership for the Hydrogen Economy, FutureGen, the Carbon Sequestration Leadership Forum, and the International Thermonuclear Experimental Reactor fusion energy project;
- Advanced cleanup of 20 Department of Energy legacy nuclear waste sites, completing both Rocky Flats, Colorado, and Fernald, Ohio, ahead of schedule; and
- Took significant steps to prevent nuclear terrorism by securing weapons in the former Soviet Union; deploying radiation detection equipment in key overseas ports; and removing or securing high-risk, vulnerable nuclear and radiological materials around the world. On track to sustaining the smallest nuclear weapons stockpile in over 50 years, accelerated the dismantlement of retired nuclear warheads and restructured the remaining stockpile.

The President's 2008 Budget:

- Provides sustained increases to advance the American Competitiveness Initiative and support basic research and world-leading facilities in the physical sciences to enable future breakthroughs and provide economic and security benefits;
- Continues advancing the Global Nuclear Energy Partnership, licensing of the Yucca Mountain nuclear waste repository, and other efforts to support expansion of nuclear power generation, while addressing nuclear waste and proliferation issues;
- Promotes the use of clean, alternative fuels and technologies for transportation and electricity that will improve energy security and air quality and reduce greenhouse gas emissions through research and development, loan guarantees, and other measures;
- Provides further insurance against oil supply disruptions that could harm the economy by proposing to double the protection provided by the Strategic Petroleum Reserve by expanding it to 1.5 billion barrels; and
- Promotes energy security while improving the environment by expanding the Nation's commitment to alternative fuels and increased automotive energy efficiency.

FOCUSING ON THE NATION'S PRIORITIES

Moving Forward on the American Competitiveness Initiative

The 2008 Budget proposes $4.4 billion, a seven-percent increase over the 2007 Budget, for the contribution of the Department of Energy's (DOE's) Office of Science to the second year of the American Competitiveness Initiative (ACI). The 2008 Budget increases funding for cutting-edge basic research, helping to enhance American competitiveness through world-leading initiatives in supercomputing; bio-energy research centers; new materials investigation facilities, including the world's first x-ray free electron laser; and nanotechnology. Energy and environmental research will include basic research in support of the Advanced Energy Initiative, including $160 million in equipment and personnel efforts for the United States' contribution to the International Thermonuclear Experimental Reactor fusion energy project.

Accelerating Breakthroughs with the Advanced Energy Initiative

The President visits the laboratory of Johnson Controls, Inc. to see progress firsthand on their work developing batteries and control systems for hybrid and plug-in hybrid vehicles.

The Advanced Energy Initiative is accelerating breakthroughs to diversify the Nation's sources of energy for homes and businesses and to diversify the fuels used in automobiles to reduce dependence on foreign sources of oil. Accelerating research in clean coal technologies, clean and safe nuclear energy, and new solar and wind technologies could reduce demand for natural gas, lower energy costs, and reduce air pollution and greenhouse gas emissions. The Nation also must go beyond a petroleum-based economy by powering automobiles with fuel efficient technologies and domestic, renewable alternatives to gasoline and diesel fuels.

Coal Research Initiative. To tap the potential of America's enormous coal reserves while meeting environmental objectives at reasonable cost, the President's Budget includes $385 million for the Coal Research Initiative to develop advanced coal technologies. This funding completes the President's commitment to spend $2 billion over 10 years on coal technology, three years ahead of schedule. Within the Coal Research Initiative, the Budget includes $108 million for the FutureGen project to demonstrate coal power generation with carbon capture and sequestration, and also includes a series of new large-scale carbon sequestration field tests. Program experts will also work with the Department of the Treasury in the allocation of $1.65 billion in tax credits, authorized under the Energy Policy Act of 2005, to foster more than $9 billion in total investment to construct the most highly efficient and lowest emitting commercial-scale power facilities.

Solar America Initiative. The Budget provides $148 million to continue this initiative toward the goal of making solar photovoltaic technology cost competitive with conventional electricity by 2015. If successful, the technology could help power the equivalent of one million homes by 2015.

Biofuels Initiative. The Administration continues its commitment to make ethanol practical and competitive by 2012 by providing $179 million for research in producing ethanol not just from corn, but also from wood chips, dedicated energy crops like switchgrass, and other organic materials.

More Efficient Vehicles. Advanced battery technologies could reduce near-term oil consumption significantly with "plug-in" hybrid vehicles that can run on either electricity or gasoline; recharging their batteries at night. The 2008 Budget includes $81 million to accelerate research on advanced hybrid and plug-in hybrid vehicles.

Hydrogen Fuel Initiative. The Budget provides $309 million to complete the President's five-year, $1.2 billion commitment to support development by 2020 of commercially viable hydrogen infrastructure technologies and fuel cell vehicles that produce no air pollution or greenhouse gas emissions.

Advancing Nuclear Power Development

The Administration continues strong support for nuclear power, which offers an air emissions-free, safe, and reliable source of energy, in several areas, including the Nuclear Power 2010 (NP 2010) program and the Global Nuclear Energy Partnership (GNEP). NP 2010 will help private industry obtain licenses for new designs that could result in a new power plant ordered by 2009 and operating by 2014. GNEP can help expand the safe use of nuclear power around the world, promote nuclear nonproliferation, and resolve nuclear waste disposal issues through an international framework that will eliminate the need for foreign countries to build enrichment and recycling capabilities, as well as develop technologies with much less proliferation risk and waste production.

Increasing Energy Security While Improving the Environment

The President is extending the commitments he made in signing the Energy Policy Act of 2005 and the 2006 State of the Union address to increase the Nation's energy security, improve air quality, and address greenhouse gas emissions. Specifically, the President is proposing to increase the current standards for alternative fuels use and for fuel economy in order to cut, by 2017, domestic gasoline consumption by 20 percent and substantially reduce vehicle air pollution and CO_2 emissions compared to projections.

To further insure against supply disruptions that could harm the economy, the President's Budget also proposes to double the protection provided by the Strategic Petroleum Reserve by expanding it to 1.5 billion barrels. This process will begin immediately with filling the reserve to its existing 727 million barrel capacity, and then expanding capacity further with expansion at existing and new sites beginning in 2008.

Advancing Cleanup

The 2008 Budget proposes $5.7 billion for the Environmental Management program that protects public health and safety by cleaning up vast amounts of hazardous waste and radioactive contamination at 108 of the 114 sites involved with nuclear research and weapons production. The Department's accelerated cleanup initiative has resulted in completing cleanup of 10 sites over the past several years, including Rocky Flats, Colorado, and Fernald, Ohio.

Promoting the Yucca Mountain Project

The Budget provides $494.5 million to continue progress toward opening a repository at Yucca Mountain, Nevada, for spent nuclear fuel and high-level radioactive waste from commercial reactors and atomic energy defense activities. In 2008, the program will emphasize submittal of a high-quality license application to the Nuclear Regulatory Commission by June 30, 2008. This could lead to a license that would allow the repository to open in 2017. In addition, the Administration plans to send the Congress a legislative proposal to address regulatory, funding, and other issues to facilitate development of this critical project.

Strengthening the Power Marketing Administrations

The Power Marketing Administrations (PMAs)—Southeastern, Southwestern, Western, and Bonneville—sell electricity generated at 133 multipurpose Federal dams and related facilities. The Budget provides $217 million for PMA activities, including construction and maintenance of Federal transmission system infrastructure. Beginning in 2007, the Administration is implementing an initiative to charge the Southeastern, Southwestern, and Western Area Power Administrations interest rates on new capital investments occurring after September 30, 2006, at levels similar to those charged to governmental corporations. The Budget reproposes an initiative to allow the Bonneville Power Administration (BPA) to apply net secondary market revenues in excess of $500 million toward the prepayment of its outstanding Treasury debt. The Administration encourages a continued ongoing dialogue in the Pacific Northwest to address the manner in which this proposal will improve BPA's ability to meet its long-term capital investment needs with minimal rate impact.

Maintaining the Nation's Nuclear Weapons Stockpile

DOE's National Nuclear Security Administration (NNSA) maintains and enhances the safety, security, reliability, and effectiveness of the nuclear weapons stockpile to ensure that the Nation's nuclear weapons serve their essential deterrence role; provides technical leadership to limit or prevent the spread of weapons of mass destruction; and provides the U.S. Navy with safe and capable nuclear propulsion plants for warships.

NNSA stewardship of the nuclear weapons stockpile, conducted with the Department of Defense, is critically important in the absence of underground nuclear weapon testing, banned since 1992. In 2006, NNSA improved its responsiveness to the Department of Defense and began planning for the modernization of the nuclear weapons complex, which will enable a more secure and responsive infrastructure suited to the requirements of the 21st Century. Transition to this new complex will be aided by the development of a Reliable Replacement Warhead that will improve safety, security, and reliability over the long term. The 2008 Budget provides $6.5 billion for continuation of the successful nuclear weapons stewardship program and modernization of the weapons complex.

The Non-Proliferation budget of $1.7 billion funds programs to detect, secure, or dispose of dangerous nuclear material, working with over a hundred countries. Thus, it will deny terrorists materials, technology, or expertise needed to develop or acquire nuclear weapons. Examples include: converting civil nuclear reactors from highly enriched uranium to low enriched uranium and returning the fuel for down-blending; securing radiological sources in the United States and abroad; securing Russian nuclear weapons sites; expanding the successful Megaports program and installing controls at border crossings and airports around the world to detect and deter nuclear smuggling; assisting in the shut-down of Russian plutonium production and the disposition of U.S. and Russian weapons plutonium and uranium; conducting international training courses and establishing best practices for controlling dangerous nuclear material; and advanced research to detect nuclear proliferation.

In 2006, the Naval Reactors program completed 75 percent of the next generation aircraft carrier reactor design (referred to as the CVN 21). Compared to today's aircraft carriers, the CVN 21 nuclear propulsion plant will have increased core energy, nearly three times the electricity generating capacity, and will require one-half as many sailors for its operation. The 2008 Budget contains $808 million to support continuation of this important effort.

Department of Energy
(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
National Defense:			
National Nuclear Security Administration	9,100	9,156	9,387
Other Defense Activities	429	472	592
Energy Resources	3,064	2,917	3,429
Science	3,633	3,605	4,398
Environmental Management	6,589	5,965	5,655
Nuclear Waste Disposal	494	487	495
Corporate Management	249	238	295
Title XVII Innovative Technology Loan Guarantee Program	—	—	8
Total, Discretionary budget authority	23,560	22,841	24,260
Memorandum: Additional funding requirements	—	*63*	*50*
Mandatory Outlays:			
Existing law	–2,766	–822	–1,426
Legislative proposal	—	—	30
Total, Mandatory outlays	–2,766	–822	–1,396
Total, Outlays	20,385	23,092	23,043
Credit activity			
Guaranteed Loan Disbursements:			
Title XVII Innovative Technology Loan Guarantee Program	—	—	3,620
Total, Guaranteed loan disbursements	—	—	3,620

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Since 2001, the Administration:

- Implemented comprehensive Medicare reform legislation, adding voluntary prescription drug coverage and improving the Medicare program;
- Enrolled nearly 24 million beneficiaries in the Medicare prescription drug benefit and achieved a better than 75 percent satisfaction rate among enrolled beneficiaries in this new program;
- Implemented several provisions of the Deficit Reduction Act of 2005 that afford States greater flexibility in managing their State Medicaid plans;
- Created or expanded nearly 900 health center sites under the President's Health Center Initiative, providing health care services to an additional 4.5 million Americans;
- Launched a Government-wide effort to prepare the Nation for an influenza pandemic, including a $3.2 billion effort to transform the influenza vaccine industry;
- Improved preparedness for a bioterror attack by providing over $8 billion to States, localities, and hospitals, and providing a 30-fold increase for the biodefense research budget at the National Institutes of Health;
- Identified interoperability as a crucial step to achieving the President's goal of an electronic health record for most Americans by 2014;
- Committed Federal health programs to promoting quality and efficient delivery of health care through the use of health information technology;
- Supported reauthorization of landmark welfare reform through 2010, continuing the unprecedented caseload decline of 66 percent through strengthened work requirements, including $100 million for a new healthy marriage program and $50 million for a new fatherhood program; and
- Began implementation of Medicare contracting reform with the award of the first five contracts allowing the Centers for Medicare and Medicaid Services to select administrative contractors through a full and open competition for the first time in the program's 40-year history.

The President's 2008 Budget:

- Includes nearly $1.2 billion to improve further the Nation's preparedness for an influenza pandemic;
- Provides for the advanced development of medical countermeasures to be considered for procurement under Project BioShield;
- Expands the promotion of health information technology development through increased transparency of health care price and quality information;
- Strengthens Medicare's sustainability through targeted proposals that will reduce the present value of the program's long-term budget shortfall by up to about $8 trillion over 75 years;
- Proposes to reauthorize the State Children's Health Insurance Program, so States can continue to provide health insurance coverage to targeted low-income, uninsured children;
- Continues to focus on Medicaid program integrity efforts that promote sound financial practices, increase market efficiencies, and eliminate Medicaid waste, fraud, and abuse;
- Includes a new tax initiative that will help equalize the tax treatment between health care policies purchased by individuals on their own and those purchased through their employers;
- Places 40 new Health Center sites in high poverty counties in addition to the over 300 new and expanded Health Center sites proposed in the 2007 Budget;
- Makes more generic drugs available to the public sooner by including $16 million funded through a new user fee for the Food and Drug Administration's review activities;
- Triples drug court grants to help break the cycle of drug use and incarceration by combining the sanctioning power of courts with effective treatment services; and
- Supports prevention activities to slow the epidemic of childhood obesity and promote a culture of wellness and healthy behaviors in schools.

FOCUSING ON THE NATION'S PRIORITIES

Preparing the Nation for Health Emergencies

Protecting Against an Influenza Pandemic. The President's 2008 Budget includes $1.2 billion to improve America's readiness for an influenza pandemic. Of this amount, $870 million will support the continued development of a pandemic vaccine and rapid diagnostics, and the purchase of antiviral medications. The Budget also provides $322 million for pandemic influenza preparedness activities in the Centers for Disease Control and Prevention (CDC), the National Institutes of Health (NIH), the Food and Drug Administration (FDA), and the Office of the Secretary.

> *I stand on the side of encouraging consumers. I think the most important relationship in health care is between the patient and their provider, the patient and the doc.... And health care policy ought to be aimed at bolstering the consumer, empowering individuals to be responsible for health care decisions.*
>
> President George W. Bush
> August 22, 2006

Protecting the Nation from Bioterror and Other Health Emergencies. The Budget includes nearly $4.3 billion in bioterrorism preparedness activities across the Department of Health and Human Services (HHS) to improve the Nation's ability to prepare for, respond to, and recover from a bioterror attack or other public health emergency. Investments include nearly $2.5 billion to research, develop, and procure countermeasures to dangerous agents, as well as $1.1 billion for State and local governments and hospitals to upgrade their public health emergency response capabilities. The 2008 Budget also supports the Federal Government's public health emergency capabilities with expanded funding for the National Disaster Medical System and Commissioned Corps response teams, in addition to the Medical Reserve Corps volunteers who could assist during a catastrophic public health emergency.

Improving Quality, Efficiency, and Transparency of Health Care

Promoting Health Information Technology, Transparency, and Quality. In August 2006, the President signed an Executive Order (E.O.) to increase the transparency of America's health care system. To spend their health care dollars wisely, Americans need and deserve to know their options in advance, the quality of doctors and hospitals in their area, and what procedures will cost. Specifically, the E.O. directs the Federal Government to lead this charge by:

- Increasing transparency in pricing and quality by directing Federal agencies to share with beneficiaries information about prices and quality of health services; and
- Encouraging adoption of recognized health information technology (HIT) standards by directing Federal agencies and federally-sponsored healthcare plans to use improved HIT systems to facilitate the rapid exchange of health information.

The President has a clear agenda for expanding HIT. In 2004, he launched an initiative to make electronic health records available to most Americans by 2014. To further facilitate technology advancements, the Budget includes $118 million for the Office of the National Coordinator for Health Information Technology. The Administration continues to support the adoption of HIT as a normal cost of doing business—to ensure patients receive high-quality care while protecting patients' privacy and personal information.

Improving Transparency of Price and Quality Information in Medicare. The Administration is working to improve the value of health care for Medicare beneficiaries through the availability of price and quality information. The Medicare website displays price and quality data that allow consumers to make informed choices by comparing the performances of health care providers.

The Administration supports budget-neutral provider payment reforms that encourage quality and efficiency, and discourage increased complications and costs. An important component of improving quality is encouraging more efficient and high-quality physician services. The Administration supports reforms in physician payments that do not increase costs for taxpayers or for Medicare and its beneficiaries. The Centers for Medicare and Medicaid Services (CMS) is working collaboratively with private and public organizations to identify reforms that stimulate high-quality care and improved efficiency. Through these collaborative efforts, CMS is developing a plan for the implementation of a budget-neutral hospital value-based purchasing program that will improve both the quality and efficiency of care. In addition, CMS will continue to expand the quality reporting program for hospitals as well as implement a new quality reporting program for physicians in 2007.

Fostering Productivity and Efficiency in Medicare. Innovation in the health care market improves productivity. The 2008 Budget proposes to consider these advances by adjusting provider updates to account for gains in providers' productivity and efficiency. Prospective payments reward providers who reduce their costs and streamline their operations. Similarly, a productivity adjustment to payment updates will encourage providers to improve efficiency. These adjustments also produce savings for taxpayers and beneficiaries through lower premiums and cost-sharing.

Strengthening Program Integrity in Medicare. Medicare program integrity efforts have yielded savings from the recovery of erroneous overpayments and the collection of criminal fines and penalties. The President's Budget continues this effort with $1.2 billion in mandatory funding and $183 million from a discretionary cap adjustment for Health Care Fraud and Abuse Control to enhance Medicare program integrity activities. Medicare sometimes mistakenly pays too much or too little for a beneficiary's care. To ensure appropriate payments and recoup mistaken payments, the Budget proposes to establish a data clearinghouse that would work to determine whether private insurance or Medicare should pay for a beneficiary's health benefits.

Modernizing and Improving Medicare

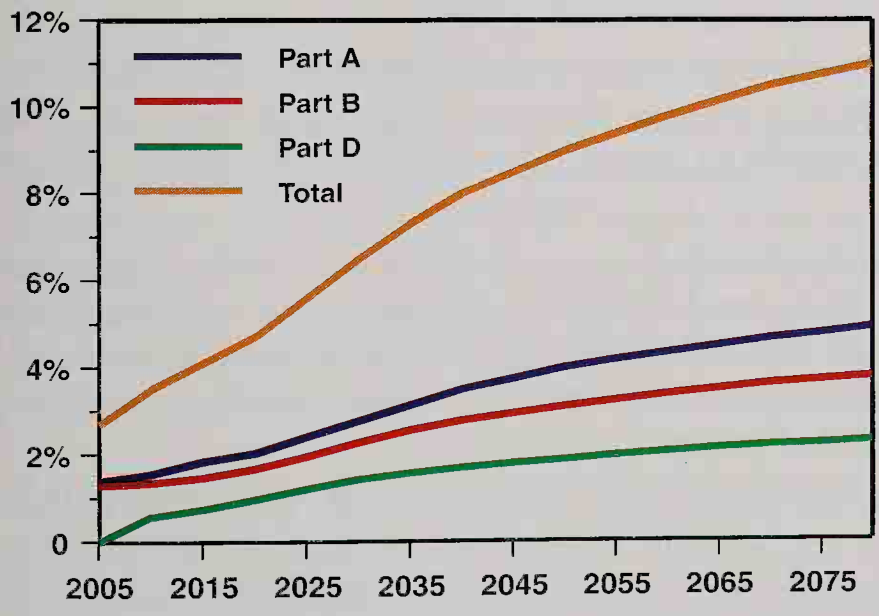
Implementing the Medicare Prescription Drug Benefit. The Medicare Modernization Act of 2003 (MMA) achieved historic reforms to Medicare, including new voluntary prescription drug coverage, which began on January 1, 2006. The first year of the program was an unparalleled success: on average, beneficiaries are saving more than $1,200 annually on their drug costs and surveys consistently show over 75 percent of Medicare beneficiaries are satisfied with their current coverage and drug plans. The average monthly premium for 2007 did not increase from the average monthly premium in 2006. This success has been achieved with projected costs for the program that are 30 percent lower than initial estimates.

Competition is making a wide variety of plan options available, enabling beneficiaries to choose the plan that best meets their needs. Prescription drug plans are available in every region with deductibles lower than the standard annual deductible. Plans are also available that allow beneficiaries to fill in the "coverage gap" in the standard benefit. Low-income beneficiaries are receiving additional assistance in paying for their drugs under the new Medicare prescription drug benefit, making drug coverage more affordable and accessible to those most in need.

Expanding Medicare Advantage. The MMA created the Medicare Advantage (MA) program to offer greater choices and higher quality care to beneficiaries through competition among private health plans. Overall, private health plans offer more generous benefits and lower cost-sharing for beneficiaries than Medicare fee-for-service. Beneficiaries in MA now save an average of about $82 per month in out-of-pocket costs compared to traditional Medicare, and beneficiaries in fair or poor health save significantly more. The MMA successfully reversed a downward trend in private Medicare plan enrollment, and about 17 percent of beneficiaries are currently enrolled in MA plans. To further increase beneficiaries' choices, beneficiaries in 39 States will have access to Medical Savings Account plans and related consumer-directed health plans for the first time in 2007. These plans give Medicare beneficiaries more control over their health care utilization and costs, while providing them with coverage against catastrophic expenses.

Rationalizing Medicare Payments and Subsidies. In many cases, Medicare payment policies have not sufficiently evolved since they were first established and may no longer be appropriate. For example, Medicare pays very different amounts for post-acute care for beneficiaries with similar needs, and often pays more when preventable complications lead to readmissions in the post-acute system. Medicare payments for some medical equipment are substantially greater than costs, increasing both taxpayer and beneficiary spending. The Budget proposes to update these policies to ensure patients receive high-quality post-acute care in the most medically appropriate and efficient setting, and to bring payments for medical equipment more in line with costs.

Medicare Growing as Share of GDP



Source: 2006 Medicare Trustees' Report.

Increasing High-Income Beneficiary Responsibility for Health Care Costs. The MMA began to limit the growth in subsidies for certain higher-income beneficiaries. Beneficiaries who are most able to contribute to the costs of their coverage have more responsibility and ownership over their health care utilization and costs. To help improve Medicare's long-term sustainability, the Budget proposes to broaden the application of reduced subsidies for certain higher-income beneficiaries.

Promoting Competition. Competition improves care for beneficiaries by enhancing quality and lowering costs. The MMA incorporated market competition into purchasing certain medical items. The Budget proposes to integrate competitive bidding into the payment of clinical laboratory services. Since 1965, Medicare has paid private insurance companies to process claims based on cost, with little attention paid to performance or efficiency. The MMA requires that CMS transition to competitive contracts by 2011. The Administration is accelerating implementation, with completion targeted in 2009, to interject competition into the awarding of fee-for-service claims processing contracts.

Improving Long-term Sustainability. The Budget's proposals to modernize and improve the quality and efficiency of Medicare will have a constructive effect on Medicare's long-term budget outlook—potentially reducing the present value of Medicare's long-term budget shortfall by up to about $8 trillion over 75 years. The MMA took an important first step toward improving Medicare sustainability by requiring the Trustees' Report to include a new, comprehensive analysis of the program's financing and issue a warning if this analysis projects that the share of Medicare expenditures funded through general revenue will exceed 45 percent within the next seven years. The Budget proposes to strengthen the MMA provision by automatically slowing the rate of

Medicare growth if the MMA threshold is exceeded. If this provision is triggered, it will reduce the present value of expenditures by $4 trillion over 75 years.

Reauthorizing the State Children's Health Insurance Program (SCHIP)

SCHIP was established in 1997 to provide $40 billion over 10 years to States for health care coverage to low-income, uninsured children whose income levels were higher than Medicaid eligibility limits. The authorization for SCHIP expires at the end of 2007. The 2008 Budget proposes reauthorizing the SCHIP program for five years. The goal is to maintain current enrollment levels for targeted low-income children through increasing SCHIP allotments by approximately $5 billion over five years. The President's Budget proposes to re-focus SCHIP on low-income, uninsured children below 200 percent of the Federal poverty level as the program was originally intended. The Budget will also seek the authority to target SCHIP funds more efficiently to States with the most need.

Reforming Medicaid Financing and Services

Medicaid is an open-ended means-tested entitlement program financed jointly by the Federal Government and States. The Federal Government pays on average 57 percent of Medicaid expenses. Medicaid provides health coverage and services to approximately 49 million low-income children, pregnant women, elderly persons, and disabled individuals. In 2008, Federal Medicaid outlays are estimated to be $204 billion.

In certain circumstances, opportunities exist for States to draw down Federal matching funds inappropriately, which threatens this joint relationship and the financial stability of Medicaid. The 2008 Budget proposes reforms that enhance past efforts to create service efficiencies and to assure the fiscal integrity of Medicaid.

Strengthening Program Integrity. The 2008 Budget includes a package of proposals to enhance program integrity, including: 1) requiring States to report on performance measures and link State performance to Federal Medicaid grant awards; 2) requiring HHS to publish an annual actuarial report assessing the financial status of the Medicaid program, including spending trends and cost drivers; and 3) enhancing existing third party liability policy.

Reforming Graduate Medical Education. Under current law, Medicare provides billions of dollars in support of graduate medical education (GME) nationwide. Many States also use Medicaid to pay for physician training programs, even though current law does not explicitly authorize such payments. The Administration plans to clarify that Medicaid will no longer be available as a source of funding for GME. Paying for GME is outside of Medicaid's primary purpose, which is to provide medical care to low-income individuals.

Aligning Medicaid Reimbursement Rates. While the Federal Government generally reimburses at a rate of 50 percent for all Medicaid administrative activities, there are exceptions that allow for a higher reimbursement rate. The Budget proposes to align all administrative reimbursement rates in Medicaid to 50 percent in order to create consistency in the administrative matching structure across Medicaid. In addition, the 2008 Budget proposes to align reimbursement for targeted case management, a largely administrative activity, to 50 percent.

Clarifying Medicaid Managed Care. The Administration will take action to clarify services that can be provided from savings generated by managed care 1915(b) waivers. A regulation will be published detailing services that can be provided under 1915(b)(3) authority. Additionally, the Administration proposes extending the renewal period for 1915(b) waivers from two years to three years.

Refining Long-term Care Home Equity. With some exceptions, the Deficit Reduction Act of 2005 does not permit individuals who have more than $500,000 of home equity to be eligible for Medicaid long term care services. States have the option to increase the limit to $750,000. The Budget proposes to remove this option and maintain the home equity limit at $500,000.

Enhancing Asset Verification for Medicaid Eligibility. The President's Budget proposes to expand a Social Security Administration (SSA) pilot using electronic financial records for verifying an applicant's assets to appropriate HHS programs. State Medicaid agencies would be required to establish pilots in locations where SSA is operating such a pilot.

Rationalizing Medicaid Prescription Drugs. The 2008 Budget includes proposals that remove market distortions, guarantees that the Federal Government does not overpay for drugs, and encourages State flexibility to administer their drug programs. For example, the Budget reproposes a Medicaid drug rebate change that would remove best price, a component of the drug rebate formula. Best price effectively acts as a price floor, interfering with the competitive marketplace and preventing manufacturers from negotiating better discounts with large purchasers. This change will allow private purchasers to negotiate lower drug prices without creating costs or savings to the Federal Government. The Budget includes a proposal that requires all States where providers use hand-written prescription pads to use tamper-resistant pads to prevent fraudulent prescription drug access and use.

Recouping Administrative Expenditures through Cost Allocation. The 2008 Budget reproposes reducing administrative costs by discontinuing Medicaid payments that are duplicative of funds originally included in the Temporary Assistance for Needy Families (TANF) block grants. This proposal would apply current, Government-wide financial management principles to TANF funds, which improperly assume other programs' administrative costs.

Improving Continuity of Care. Since enacted in 1996, the Health Insurance Portability and Accountability Act has the goal of increasing the continuity and accessibility of health insurance. To ensure that Medicaid and SCHIP beneficiaries receive these benefits, the Administration reproposes two legislative changes that were included in the 2007 Budget. In addition, the 2008 Budget proposes to continue covering Medicaid beneficiaries who qualify for benefits through Transitional Medical Assistance or who qualify for Medicare Part B premium assistance as a Qualified Individual, so that enrollment for current beneficiaries will not be interrupted.

Reforming the Health Care Marketplace

When it comes to health care, the tax code is biased in favor of individuals who get insurance from their employers. To remove this inequality, the President proposes replacing the existing—and unlimited—exclusion for employer-sponsored insurance with a flat deduction for those with at least catastrophic health insurance. As long as a family has at least a catastrophic health insurance policy, they will be able to deduct the first $15,000 from their income ($7,500 for an individual). This will foster a true marketplace for health care, encourage competition, improve the efficiency of the system, and reduce the ranks of the uninsured.

Additionally, the 2008 Budget reproposes three initiatives to restructure health insurance markets:

- Establishing association health plans that would allow small employers, civic groups, and community organizations to band together and use their purchasing power to negotiate lower-priced coverage for their employees, members, and their families;
- Creating a competitive marketplace across State lines that maintains strong consumer protections; and
- Reforming medical liability law, which will increase access to quality and affordable health care for all Americans, while reducing frivolous and time-consuming legal proceedings against doctors and health care providers.

The President continues his commitment to consumer-focused policies that emphasize transparency of price and quality information. The Budget contains a package of proposals that promote the use of health savings accounts, including allowing health plans with at least 50 percent coinsurance to qualify as a high-deductible health plan.

Fostering Affordable Choices in the Health Care System

The Federal Government's current system of paying for health care results in billions of dollars being spent inefficiently, through a patchwork of subsidies and payments to providers. In addition to directly funding the care provided to people enrolled in programs like Medicare and Medicaid, health care entitlement programs finance payments to institutions that either indirectly pay for uncompensated care or subsidize their operating expenses.

The health care system could operate more efficiently if some portion of institutional payments instead were redirected to help people with poor health or limited income afford health insurance. The uninsured often use emergency rooms as a source of primary care, which leads to suboptimal care and spending outcomes. If this public spending were focused on helping the uninsured purchase private insurance, people would receive the care they need in the most appropriate setting. The health care system needs to be transformed in a way that avoids costly and unnecessary medical visits and emphasizes upfront, affordable private health insurance options.

This transformation could happen by subsidizing the purchase of private insurance for low-income individuals. However, any such health care reforms would need to be State-based and budget neutral within health care spending, not create a new entitlement and not affect savings contained in the President's Budget that are necessary to address the unsustainable growth of Federal entitlement programs. The Federal Government would also maintain its commitment to the neediest and most vulnerable populations, while acknowledging that States are best situated to craft innovative solutions to move people into affordable insurance.

The President has asked the Secretary of Health and Human Services to work with the Congress and the States on an Affordable Choices initiative to reform the health care marketplace.

Strengthening Health Care for Vulnerable Populations

The Budget continues to target investments to improve the health of underserved and vulnerable populations. Through Health Centers, affordable primary and preventative care will be made available to over 16 million individuals with low incomes or without health insurance. Over half a million low-income and uninsured persons affected by HIV/AIDS will receive life-saving and life-extending services through the Ryan White CARE Act. One of the primary challenges in fighting the HIV epidemic in the United States is stopping the spread of the disease through the identification of individuals who are infected with the HIV virus but do not know it. To address this problem, the Administration is proposing $93 million for HIV testing with the goal of ending the growth in the number of new HIV cases and reducing the future burden of the disease. Over $4.1 billion is included in the 2008 Budget to finance health services for American Indians and Alaska Natives through the Indian Health Service, including $162 million for alcohol and substance abuse treatment services. In addition, HHS will expand efforts to provide treatment to defendants with substance abuse problems who are caught within the criminal justice system. Drug courts break the cycle of abuse and incarceration through treatment and close supervision. In an effort to address increasing rates of obesity in children, the Budget proposes a new $17 million effort to support increases in school-based prevention activities, directly reaching young people and their families across the Nation.

Presbyterian Medical Services; Alisa Estrada

The President's Health Center Initiative

A patient receives care at Carlsbad Family Health Center. Under the President's Health Center Initiative, Presbyterian Medical Services received a grant in 2005 to expand medical services at its Carlsbad Family Health Center site. *"Presbyterian Medical Services was proud to receive Federal funding to support expansion of medical capacity in Carlsbad, Eddy County, New Mexico. As a result of the President's initiative to expand access to medical care, Presbyterian Medical Services has been able to increase staff and services with a goal of serving an additional 3,000 primary care clients in the south east portion of the State."*

Jim Riebsomer
President of Presbyterian Medical Services

Investing in Nurse Home Visitation Programs. The President's Budget includes $10 million for competitive grants to provide incentives to States, local governments, or non-profit organizations to use a greater share of existing Federal and non-Federal funding streams to adopt and expand evidence-based home visitation programs for new low-income mothers and their children. Nurse home visitation programs with strong performance monitoring are proven to prevent child abuse and neglect and to improve school readiness and health outcomes, meeting the highest standards of evidence.

Improving Public Health through Science

The President's Budget supports advances in medical research and promotes greater availability and safety of affordable generic drugs. In the President's first term, the Administration made it easier for generic drugs to compete with brand-name drugs, saving Americans $35 billion over 10 years. To accelerate discovery and to contribute more effectively to the Nation's strong biomedical research foundation, NIH will expand resources for new and competing research grants and for initiatives, such as the Roadmap for Biomedical Research that encourages innovation and scientific breakthroughs across interdisciplinary areas. The Budget also increases resources for NIH to ensure that creative new investigators receive the necessary skills and mentored support to forge their own pathway to innovative biomedical research. As a science-based enterprise, FDA ensures that safe and effective drugs and diagnostic technologies are available to the public. Submissions of applications for generic drug products continue to rise steadily, from 361 in 2002 to 766 in 2005. The 2008 Budget proposes a new user fee that would provide $16 million in additional resources for FDA to review and bring more new generic drugs to market. The Budget also improves review of innovative prescription drugs and biologics, and includes over $11 million for FDA's drug safety surveillance to enhance communications of drug safety information to the public.

Supporting Faith-Based and Community Programs

Continuing the Administration's Faith-Based Agenda. The 2008 Budget proposes $75 million for the Compassion Capital Fund to provide training for capacity-building and technical assistance for grassroots faith-based and community-based organizations (FBCOs). Of this, $35 million is for the program's anti-gang initiative, which helps FBCOs with a youth focus present alternatives to gang involvement. The Budget also includes $204 million to promote Abstinence Education and $50 million to fund the President's initiative to mentor the children of prisoners.

Expanding Access to Recovery (ATR). The 2008 Budget includes $98 million for 20 competitive grants to States and Native American Tribes to provide services to more than 55,000 individuals. ATR expands access to treatment and recovery support services, increases clinical treatment and recovery support providers, and enhances accountability through mandatory reporting on outcome measures. Within this amount, $25 million will be targeted to help individuals recover from methamphetamine abuse.

Department of Health and Human Services

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Food and Drug Administration	1,449	1,490	1,641
Program level (non-add)	*1,876*	*1,821*	*2,085*
Health Resources and Services Administration	6,576	6,543	5,708
Indian Health Service	3,045	3,059	3,271
Centers for Disease Control and Prevention	5,972	5,812	5,762
National Institutes of Health	28,242	28,450	28,700
Substance Abuse and Mental Health Services Administration	3,204	3,205	3,046
Agency for Healthcare Research and Quality	—	—	—
Program level (non-add)	*319*	*319*	*330*
Centers for Medicare and Medicaid Services [1]	3,120	3,076	3,240
MedPAC	10	10	10
Discretionary Health Care Fraud and Abuse Control	—	—	183
Administration for Children and Families	13,695	13,706	12,329
Administration on Aging	1,362	1,367	1,335
General Departmental Management	362	355	392
Office for Civil Rights	35	35	37
Office of the National Coordinator for Health Information Technology	42	42	90
Program level (non-add)	*61*	*61*	*118*

Department of Health and Human Services—Continued

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Office of Medicare Appeals	59	59	70
Public Health and Social Services Emergency Fund	102	250	1,754
Program Support Center: Medicare eligible retiree accrual	34	36	37
Office of the Inspector General	39	39	45
Total, Discretionary budget authority	67,349	67,533	67,650
Memorandum: Budget authority from enacted supplementals	*5,702*	—	—
Total, Discretionary outlays	71,104	72,437	72,428
Mandatory Outlays:			
Medicare:			
Existing law	324,911	367,485	390,782
Legislative proposal	—	—	–4,696
Medicaid/SCHIP:			
Existing law	186,076	197,488	209,310
Legislative proposal	—	35	–297
All other programs:			
Existing law	33,949	35,482	33,437
Legislative proposal	—	5	16
Total, Mandatory outlays	544,936	600,495	628,552
Total, Outlays	616,040	672,932	700,980

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[1] Amounts appropriated to the Social Security Administration (SSA) from the Hospital Insurance and Supplementary Medical Insurance accounts are included in the corresponding table in the SSA chapter.

DEPARTMENT OF HOMELAND SECURITY

Since 2001, the Administration:

- Funded over 5,700 new Border Patrol agents, and acquired nearly 7,800 new detention beds;
- Provided nearly $37.5 billion to State, local, and tribal governments to enhance first responder preparedness of which $22 billion was allocated through Department grant programs. This includes a total of $25.5 billion in support related to terrorism and catastrophic preparedness events, with $16.3 billion allocated through the Department;
- Created the Domestic Nuclear Detection Office to detect, identify, and track down the origins of nuclear and radiological materials;
- Hired a workforce and deployed sufficient technology to electronically screen 100 percent of airline passengers and checked baggage;
- Strengthened marine transportation systems and the cargo supply chain through the Container Security Initiative, Customs Trade Partnership Against Terrorism, and the Maritime Transportation Security Act; and
- Awarded more than $700 million in port security grants to enhance the physical security of the Nation's seaports.

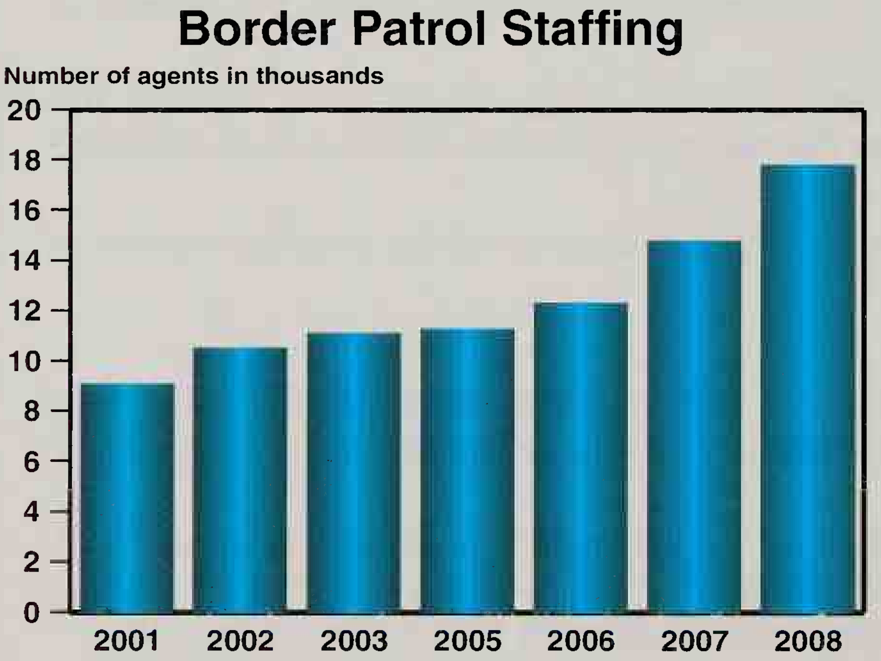
The President's 2008 Budget:

- Increases non-defense homeland security spending by 9.5 percent Government-wide compared to 2007, excluding 2007 emergency funding and borrowing authority for interoperability grants;
- Provides $13 billion to strengthen border security and immigration enforcement, including $1 billion to construct fences and secure the Southwest border, building upon the $1.5 billion appropriated for 2006 and 2007—an unprecedented investment on the Nation's borders;
- Funds 3,000 new Border Patrol agents, which will lead to the doubling of the force by the end of 2008, provides for 950 new detention beds, and continues funding for an automated, user-friendly eligibility verification system;
- Provides $2 billion in grants for first responder preparedness—on top of $1 billion in interoperable communications grants previously authorized—and over $5 billion in funds that State, local, and tribal governments are currently spending;
- Enhances the ability to detect, identify, and track down the origins of nuclear and radiological materials;
- Strengthens FEMA by improving partnerships with States and professionalizing the national emergency management system; and
- Improves the ability to identify visitors and to assist with law enforcement and terrorism investigations by collecting 10 fingerprints (instead of the two that are currently collected and screened) at the Nation's ports of entry.

FOCUSING ON THE NATION'S PRIORITIES

Prioritizing Comprehensive Immigration Reform

The Administration is dedicated to comprehensive reform of America's immigration laws by increasing border security, while maintaining the Nation's tradition of welcoming immigrants who enter the country legally. For immigration reform to succeed, it must be based on five pillars: 1) strengthening security at the borders; 2) substantially increasing enforcement in the interior to remove those who are here illegally, and to prevent employers from deliberately or inadvertently hiring illegal immigrants; 3) implementing a Temporary Worker Program to provide a legal channel for employers to hire foreign workers to do jobs Americans are unwilling to do; 4) addressing the millions of illegal immigrants already in the country; and 5) helping new immigrants assimilate into American society. The Administration's plan will deter and apprehend migrants attempting to enter the country illegally and decrease crime rates along the border. The plan also will serve the needs of the economy by allowing employers to hire legal foreign workers on a temporary basis when no American is willing to take the job, bring illegal immigrants out of the shadows without providing amnesty, and restore public confidence in the Federal Government's ability to enforce immigration laws.



Deploying 3,000 New Border Patrol Agents. Since 2001, the Administration and the Congress have increased funding for border security by 145 percent and immigration enforcement by 118 percent. The Administration has also worked with the States to deploy thousands of National Guardsmen to assist the Border Patrol at the Southwest border. Through this initiative, the Guard have replaced hundreds of Border Patrol agents serving in supporting roles and returned them to frontline duties. The 2008 Budget provides more than $3.5 billion for the Border Patrol (an increase of 27 percent over the 2007 enacted level) including funding for 3,000 new agents. The President has committed to doubling the size of the Border Patrol to over 18,000 agents before he leaves office. At the start of the President's Administration, there were 9,096 Border Patrol agents. This Budget will bring the total number of agents to 17,819, and the 2009 Budget will achieve the President's goal. To gain control of the Nation's borders, the Budget also continues funding for fencing, technology, and other infrastructure along the border. In September 2006, the Department of Homeland Security (DHS) awarded a contract to manage the fencing, technological, and other infrastructure components of its Secure Border Initiative (SBI) effort, SBInet. The 2008 Budget requests $1 billion to speed deployment. The project is focused on using proven, low risk technology to significantly improve the availability of information and tools to Border Patrol agents so they can better detect, identify, classify and confront illegal border activity by those who pose a threat to the United States.

Ending Catch and Release. The Administration has effectively ended the practice of "catch and release" along the northern and southern border. Non-Mexican aliens apprehended at the border are now detained and then returned to their home countries as quickly as possible and all non-criminal

Mexican illegal aliens apprehended are returned to Mexico immediately. The 2008 Budget includes $2.2 billion in detention and removal resources to continue this success and supports a total of 28,450 detention beds across the country to house illegal aliens apprehended by DHS.

Partnering with State and Local Law Enforcement. To improve coordination and provide assistance to State and local law enforcement officials, the Budget expands a successful Federal, State and local partnership—the 287(g) program, which provides State and local law enforcement officials with guidance and training in immigration law, subject to the direction of the Secretary of Homeland Security. The 2008 Budget includes an increase of $26 million for the 287(g) program and the Law Enforcement Support Center, including the training of an additional 250 State and local law enforcement officers, detention beds for apprehended illegal aliens, and personnel to assist State and local law enforcement when they encounter aliens. It also includes an increase of $29 million to identify criminal aliens in Federal, State, and local prison facilities and remove those aliens from the United States.

Building a Robust Enforcement Program. To help employers follow immigration law and identify legal workers, the 2008 Budget provides $30 million to support the Basic Pilot Program. Through this voluntary web-based program, employers are able to quickly and easily verify the employment eligibility of prospective employees and avoid hiring unauthorized workers. In addition, the Budget includes an increase of $5 million to improve worksite enforcement through cooperative agreements with private employers.

The 2008 Budget also includes increases for investigating smuggling and border criminal activity ($13 million) and for identifying, apprehending, prosecuting, and removing aliens involved in gang activities ($5 million).

Adopting Better Screening Techniques. US-VISIT is central to the Federal Government's screening of international visitors. US-VISIT expedites the clearance of legal and safe travelers, while focusing on blocking those intending to do us harm. US-VISIT currently collects two digital fingerprints and a digital photograph. The ability to screen visitors against criminal and terrorist information, as well as confirming the identity of travelers has improved border security. However, in the future, to assist with terrorism and criminal investigations and to improve accuracy in the identification of those entering the country, first-time visitors will be enrolled in the program by submitting 10 fingerprints. DHS will implement this multi-year screening project, in conjunction with the Departments of State and Justice. The 2008 Budget includes $462 million for US-VISIT, including $228 million to deploy 10 fingerprint collection at all of the Nation's land, air, and sea ports of entry and for interoperability with the FBI's fingerprint system, the Integrated Automated Fingerprint Identification System.

In addition, the Transportation Security Administration will conduct security assessments on more than 2.1 million individuals in the Nation's transportation system, including commercial HAZMAT drivers, airline flight and ground crews, airline passengers, and port workers. These assessments will be based on terrorism and criminal information from U.S. intelligence community and FBI databases.

Improving Immigration Application Processing. The Budget supports an increase in U.S. Citizenship and Immigration Services (USCIS) immigration application and petition fees. These fees will be used to maintain and improve the six-month or better processing time for immigration applications, recover the full costs of operations, and improve fraud detection and prevention programs. Additionally, USCIS will automate their business processes—eliminating the paper-based system—thereby greatly improving customer service, information sharing, and significantly strengthening the security and integrity of the immigration system.

Protecting the Homeland from Nuclear Threat and Improving Chemical Security

The Domestic Nuclear Detection Office (DNDO) coordinates the Nation's nuclear detection efforts. Together with the Departments of State, Energy, Defense, and Justice, DNDO is implementing a comprehensive inter-agency system to detect, report, and respond to any attempt to import, assemble, or transport a nuclear device and fissile or radiological materials within the United States. The 2008 Budget includes $562 million for the DNDO, a 17-percent increase from the 2007 level. To respond to the threat from nuclear and radiological materials, DNDO's budget has grown more than 400 percent since its establishment in 2005.

In 2008, DNDO will continue to conduct transformational research and development aimed at enhancing the ability to detect, identify, and track down the origins of nuclear and radiological materials. This research looks beyond current capabilities and seeks to find novel scientific tools and methodologies that may prove useful to counter the threat of nuclear and radiological devices. The Budget also includes $178 million for the deployment of both fixed and mobile radiation portal monitors at strategic points of entry throughout the country. An additional $30 million will be used to improve the detection of radiological and nuclear materials in and around major cities. By the end of December 2007, DNDO will have deployed radiation portal monitors to the Nation's 22 busiest seaports to scan incoming sea containers, which will result in 98 percent of all seaport containers being screened upon entry into the United States. Together with the overseas non-proliferation efforts led by the Department of State, and the overseas detection capabilities managed by the Department of Energy, DNDO seeks to create a seamless approach toward preventing terrorists anywhere in the world from acquiring, transporting, or introducing these materials into the United States.

Through the Secure Freight Initiative, Customs and Border Protection will also enhance overseas nuclear and radiological screening of U.S.-bound containers by continuing to deploy enhanced passive radiation monitoring and other imaging equipment in cooperation with the Department of Energy's MegaPorts program. The Budget also reduces the Nation's vulnerability to a terrorist attack by providing $25 million to regulate security at high-risk chemical facilities. This funding provides the Department with the capability to develop and refine vulnerability assessment tools, review site security plans submitted by high-risk chemical facilities, and inspect facilities for compliance with chemical facility security regulations.

Implementing New Vision at the Federal Emergency Management Agency

The President's Budget provides $100 million to implement a new vision for the Federal Emergency Management Agency (FEMA). With these new funds, FEMA will strengthen its core capabilities, competencies, and capacities; expand regional preparedness and response activities; strengthen its partnership with States; and professionalize the national emergency management system. The vision will allow FEMA to establish better program analysis and project management capabilities by reshaping its workforce and become more results and performance-oriented. DHS will also continue to ensure the integration of Federal plans and planning efforts.

With the additional funds, FEMA will hire dedicated operational planners who will partner with States and localities to develop operational disaster response plans and incident-specific catastrophic plans. FEMA will improve its ability to deliver disaster assistance to individuals and communities by increasing registration speed and capacity and expanding Mobile Registration Intake Centers to make it easier for people to register for Individual Assistance. Additionally, FEMA will reduce misuse and abuse of disaster assistance through better internal management controls and accountability, more vigilant oversight of contracts, and improved systems to process and deliver benefits.

Ongoing Katrina Recovery Efforts. In August 2005, Hurricane Katrina forced the evacuation of more than 1.5 million people, damaged or destroyed nearly 200,000 homes, and resulted in the loss of over 1,200 lives. Many Federal agencies were involved in the response and recovery efforts, and the long-term recovery effort is continuing to this day.

In Mississippi, the debris removal process is essentially complete and remaining debris in the Mississippi Sound should be cleared by May 2007. Additionally, out of the $5.5 billion in Federal Community Development Block Grant (CDBG) funds available, Mississippi has distributed over 8,500 checks to homeowners without flood insurance to compensate for flood-related damages, as of January 2007.

In Louisiana, approximately 76 percent of the debris has been cleared as of January 2007, including 30 percent of the approximately 34,000 homes scheduled to be demolished. Debris removal should be completed by December 2007. Louisiana officials anticipate that distribution of $10.4 billion in CDBG funds to homeowners without flood insurance will ramp up in Spring 2007. Federal, State, and local officials are working together to improve Louisiana's housing program.

Department of Homeland Security

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Gross Discretionary Budget Authority:			
Departmental Management and Operations	856	915	998
Office of the Inspector General	82	99	99
Citizenship and Immigration Services	114	182	30
Legislative proposal	—	—	–4
United States Secret Service	1,219	1,277	1,399
Customs and Border Protection	5,865	6,442	8,791
Immigration and Customs Enforcement	3,633	4,444	4,781
Transportation Security Administration	5,891	6,010	6,399
United States Coast Guard	6,710	7,052	7,272
Federal Emergency Management Agency (FEMA)	6,146	6,013	5,187
State and Local Programs (non-add)	*3,378*	*3,393*	*2,196*
Science and Technology	1,467	848	799
Domestic Nuclear Detection Office (DNDO) [1]	—	481	562
National Protection and Programs Directorate	947	941	1,164
Federal Law Enforcement Training Center	279	253	263
Other	4	—	—
Total, Gross	33,213	34,957	37,740
Less fee-funded activities	–2,545	–2,976	–3,452
Total, Discretionary budget authority (net)	30,668	31,981	34,288
Memorandum:			
Budget authority from enacted supplementals	*–15,792*	*1,919*	—
Additional funding requirements	—	*3,520* [2]	*225* [2]
Total, Discretionary outlays	52,695	46,956	42,904
Mandatory Outlays:			
FEMA	16,519	3,014	343
Citizenship and Immigration Services	1,584	1,776	2,386
United States Secret Service	201	200	210
United States Coast Guard	1,212	1,295	1,431
All Other	–3,104	–2,811	–4,062
Total, Mandatory outlays	16,412	3,474	308
Total, Outlays	69,107	50,430	43,212
Credit activity			
Direct Loan Disbursements:			
Disaster Assistance	629	516	79

[1] DNDO received $125 million in 2006 in the Science and Technology appropriation.

[2] $120 million in 2007 and $225 million in 2008 is proposed to be transferred from the Department of Defense to the United States Coast Guard.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Since 2001, the Administration:

- Helped Americans buy homes, expanding the homeownership rate to nearly 70 percent and the minority homeownership rate to over 51 percent nationwide. With approximately three million minorities owning a home for the first time, the Nation now has the highest minority homeownership rate in its history. Furthermore, the Administration is ahead of schedule in achieving the Presidential goal of adding 5.5 million new minority homeowners by 2010;
- Achieved significant progress toward the Administration's goal of ending chronic homelessness by creating more than 50,000 units of permanent supportive housing since the effort was announced;
- Implemented the American Dream Downpayment Initiative, a new program that has helped thousands of Americans—nearly half of whom are minorities—overcome significant barriers to homeownership, such as down payment and closing costs; and
- Made significant improvements in financial management eliminating $2 billion in annual improper payments, a reduction of 60 percent, and for the first time since 1990 received a 2006 audit opinion without any material weakness on the Department's financial statements.

The President's 2008 Budget:

- Provides housing for nearly five million low-income families while helping them move toward self-sufficiency, and includes a proposal to significantly reform the voucher program by providing localities more flexibility to meet local needs and serve more households while focusing more resources in communities with the greatest need;
- Increases minority homeownership and expands the affordable housing supply for low-income families by continuing to increase funds for the HOME Investment Partnerships Program, extending the American Dream Downpayment Initiative, and improving the Federal Housing Administration's mortgage insurance program to provide consumers with better home financing options;
- Sustains the goal of ending chronic homelessness through increased funding of Homeless Assistance Grants, which provide housing and emergency services for those in great need;
- Proposes to better target Community Development Block Grant program resources toward communities most in need; and
- Furthers the Department's management improvement initiatives through workforce optimization efforts, continued technological investments, and a strong commitment to financial management improvements, including continued reductions in improper payments.

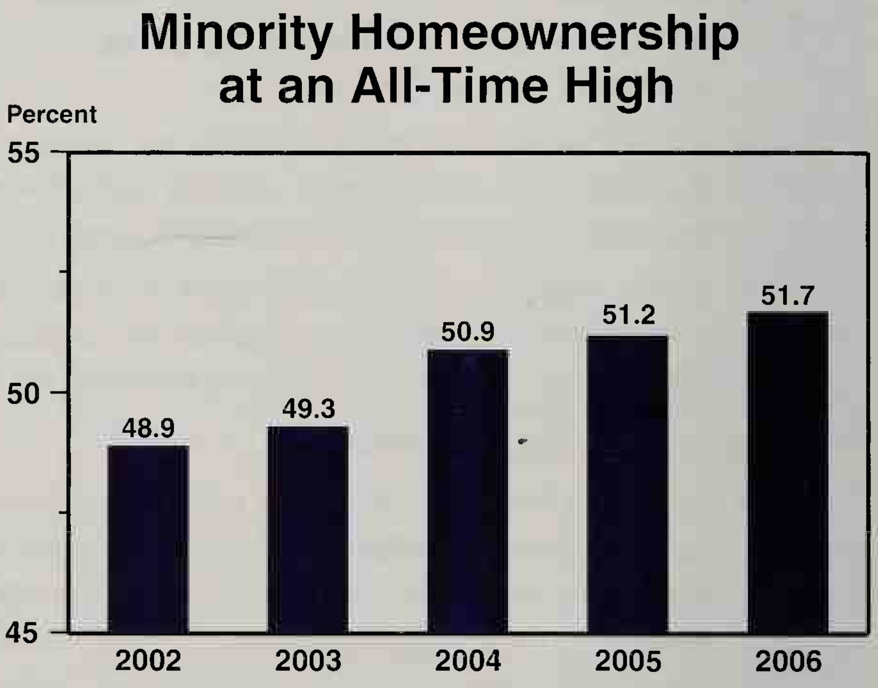
FOCUSING ON THE NATION'S PRIORITIES

Meeting America's Most Critical Housing Needs

The President's 2008 Budget supports nearly five million housing units across public housing, Section 8 voucher, and other assistance programs. These programs offer individuals and families critical rental support, much needed stability, and the opportunity to move toward self-sufficiency. Proposed changes to the voucher program will give public housing authorities incentives to serve more households, and will update the funding allocation formula to better reflect current needs. Furthermore, the Budget gives public housing authorities (PHAs) efficiency-enhancing incentives to maximize the impact of their resources by eliminating the cap on the number of units they can fund and encouraging them to spend their balances effectively. By tapping unspent excess balances at PHAs, the President's proposal will serve a significant number of additional low-income families. The continued support of the Department of Housing and Urban Development's (HUD's) core programs remains at the heart of the Department's mission.

Supporting Homeownership through Innovative Programs

The HOME Investment Partnerships Program. The HOME program is the largest Federal housing block grant program to States and localities, delivering nearly $2 billion in proposed funding with the primary goal of creating affordable housing for low-income families. The HOME program helps build partnerships between governments and local organizations, such as nonprofit groups, that collaboratively fund and execute a wide range of activities, including building, buying, and rehabilitating affordable housing. In addition to growing the affordable housing stock and assisting first-time homebuyers with down payment and/or closing costs, the HOME program also provides direct rental assistance to low-income individuals and families. HUD's HOME program posted record performance during 2006 when more than 143,000 households were reported as benefitting from hundreds of local programs that HOME supports. The spike in HOME's affordable housing production is due in part to more accurate reporting and in part to HUD's aggressive effort to boost performance measurement.



Source: Department of Housing and Urban Development.

The American Dream Downpayment Initiative (ADDI). The HOME program includes ADDI, which is an Administration priority to further increase the number of minority and first-time homebuyers. ADDI furthers homeownership, particularly among minorities, by lowering barriers that may prevent potential homebuyers from entering the market, such as high down payment requirements. As a result of this effort and others like it, HUD has helped the Nation achieve an unprecedented homeownership rate of nearly 70 percent.

The Federal Housing Administration Mortgage Program. In 2002, the President issued America's Homeownership Challenge to increase first-time minority homeowners by 5.5 million through 2010.

The Federal Housing Administration (FHA) mortgage program is an important tool for reaching that goal. In 2006, 31 percent of those using FHA mortgages were minorities purchasing their first home. The 2008 Budget continues Administration efforts to modernize FHA by improving its ability to reach traditionally underserved homebuyers, such as low- and moderate-income families, individuals with blemished credit, and families who have little savings for a down payment. The Administration's proposal would base mortgage insurance premiums on the risk of the loan based on traditional credit variables, including the borrower's credit profile and the loan-to-value ratios. This will result in more families having access to market-rate mortgage financing and will provide financial incentives for families to improve their credit histories or save for a down payment.

Working to End Chronic Homelessness

The 2008 Budget continues the Administration's commitment to end chronic homelessness by creating new supportive housing options for these individuals. Chronically homeless persons are identified as individuals who have been on the street for long periods and have an addiction and/or suffer from a disabling physical or mental condition. Across the country, local leaders and nonprofit organizations have embraced this goal with over 200 jurisdictions committing to 10-year plans to end chronic homelessness. A number of the jurisdictions that have implemented their plans are seeing steady decreases in the number of chronic homeless individuals on their streets and in shelters. The Budget proposes a $50 million increase, to $1.6 billion, for HUD's Homeless Assistance Grants, which received an Effective rating in the 2006 Program Assessment Rating Tool assessment due to its strong program design and performance measures.

Using the Community Development Block Grant (CDBG) Program Effectively

The President's Budget provides $3 billion for CDBG and advances a reform agenda that will distribute resources more equitably and promote efficiency. The current CDBG formula allocates a disproportionate amount of resources to areas with relatively few critical development needs while other, needier areas go underserved. Additionally, HUD continues to work with State and local authorities in the stewardship of $16.7 billion in supplemental CDBG disaster funds to assist in the long-term recovery and rebuilding of the Gulf Coast. Ensuring the effective and proper use of these funds is critical to both the region and the American taxpayer.

Managing for Success

In the past several years, HUD has taken many notable steps in improving its management and performance, and the President's Budget strengthens these efforts. HUD recently completed a comprehensive workforce analysis and is now working to implement critical findings, such as optimizing its human capital structure. Furthermore, technology investments are helping HUD gather and utilize data to improve its programs and management agency-wide. HUD is also continuing to reduce its improper payments and build improved financial systems to better serve both taxpayers and its clients. These efforts and others like them have helped HUD garner several noteworthy recognitions, such as improving its internal controls to eliminate any material weakness in the Department's annual financial audit and gaining recognition as a leader among Federal agencies in information technology use.

Department of Housing and Urban Development

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Community Development Fund	4,178	4,215	3,037
CDBG cancellation	—	—	–356
HOME Investment Partnerships Program	1,757	1,805	1,967
American Dream Downpayment Initiative (non-add)	*25*	*25*	*50*
Homeless Assistance Grants	1,327	1,353	1,586
Housing Opportunities for Persons with AIDS	286	296	300
Tenant-based Rental Assistance	14,011	15,081	16,000
Project-based Rental Assistance	5,037	5,458	5,813
Housing Certificate Fund	–605	–2,050	–1,300
Public Housing	5,984	5,772	6,024
Native American Housing Block Grant	624	624	627
Revitalization of Severely Distressed Public Housing (HOPE VI)	99	183	–99
Housing for the Elderly	726	747	575
Housing for Persons with Disabilities	231	240	125
Federal Housing Administration (FHA)	–654	65	–268
Lead Hazard Reduction	150	150	116
All other HUD programs	906	730	1,054
Total, Discretionary budget authority	34,057	34,669	35,201
Memorandum: Budget authority from enacted supplementals	*17,090*	—	—
Total, Discretionary outlays	41,978	45,948	46,857
Total, Mandatory outlays	457	–3,112	–2,453
Total, Outlays	42,435	42,836	44,404
Credit activity			
Direct Loan Disbursements:			
FHA	3	51	51
Total, Direct loan disbursements	3	51	51
Guaranteed Loan Disbursements:			
FHA	79,623	64,917	91,510
All other programs	538	579	621
Total, Guaranteed loan disbursements	80,161	65,496	92,131

MARCH 3, 1849

DEPARTMENT OF THE INTERIOR

Since 2001, the Administration:

- Assessed conditions of Interior facilities including all national parks for the first time in history;
- Earned a 95-percent satisfaction rate from visitors to national parks, according to surveys;
- Helped meet the Nation's energy needs by more than doubling annual oil and gas permit processing on Federal lands;
- Restored, improved, and protected three million acres of wetlands habitat for migratory birds and other fish and wildlife;
- Treated 6.7 million acres through the hazardous fuels reduction program on lands managed by the Department of the Interior; and
- Funded 32 new Bureau of Indian Affairs replacement schools and 39 major school repair projects.

The President's 2008 Budget:

- Commences a national parks initiative to improve facilities, enhance visitor services, and conserve natural and cultural resources, with an emphasis on partnerships and volunteers;
- Challenges park friends to increase donations with up to $100 million in matching funds;
- Sets accountable goals for restoring and maintaining national park facilities;
- Enhances visitor services in national parks by adding 3,000 seasonal rangers;
- Helps communities achieve self-sustained management of historical and cultural properties by promoting heritage tourism through Preserve America grants;
- Helps meet the Nation's energy needs by sustaining robust funding for onshore permitting of both traditional and new types of energy resources;
- Supports conservation of wetlands, uplands, oceans, coasts and wildlife through cooperative conservation programs;
- Combats the escalating law enforcement problems in Indian Country caused by the spread of methamphetamine use; and
- Preserves open spaces by allowing more landowners to realize the full tax deduction earned from the donation of lands for conservation purposes.

FOCUSING ON THE NATION'S PRIORITIES

Launching the National Parks Centennial Initiative

Our national parks are icons of America. They embody a national commitment to conservation, preservation, and family enjoyment. To continue this legacy for future generations, President Bush initiated the National Parks Centennial Initiative to further enhance parks over the decade leading to the 2016 centennial celebration. Fundamental to this effort, the President directed that the Department of the Interior (DOI), "establish performance goals for our national parks that, when achieved, will help prepare them for another century of conservation, preservation, and enjoyment." The Centennial Initiative is being launched as part of the largest budget in the history of the National Park Service (NPS).

The Centennial Initiative has the potential to provide up to $3 billion in new funds over 10 years. It includes the President's Commitment of $100 million for activities to achieve new levels of excellence in America's parks, the President's Challenge for the public to contribute at least $100 million annually to support parks, and the President's Match to private donations for signature projects and programs on a dollar-for-dollar basis up to $100 million each year. If the public rises to the challenge, the Initiative could provide up to $300 million on top of regular funds for park activities in 2008.

The NPS budget provides more than $2 billion for park operations, with the highest increase ever at more than $250 million over 2006, and 40 percent more than when President Bush took office. This includes $100 million for the President's Commitment and over $150 million to support daily park operations. These investments will improve park facilities, enhance visitor services, and conserve natural and cultural resources by:

- Setting clear performance goals. NPS will use specific targets to improve park assets, now that it has assessed the condition of all standard park facilities.
- Demonstrating results. About 20 parks this year will use flexible park base increases to show how new investments can improve parks.
- Encouraging park partners and volunteers. All friends of national parks are challenged to increase donations in response to the new taxpayer investments.

In addition to park operations, NPS, through programs such as Preserve America, will help communities renew heritage and historic sites and facilitate local heritage tourism.

Expanding Domestic Energy Opportunities

The 2008 Budget sustains the strategic investments of past budgets to enhance the availability of affordable oil, gas, and other energy resources, while maintaining strong environmental protections.

To ensure the Government receives fair compensation for the use of the Nation's land and minerals, the Budget proposes to repeal certain provisions in the 2005 Energy Policy Act, including a last-minute addition to the bill that prohibited the Administration from implementing new fees for oil and gas permit processing. The Budget proposal supports the Administration's efforts to charge for Government services where the direct beneficiary can be identified. This is expected to generate at least $20 million per year beginning in 2008, thereby shifting these costs from taxpayers and allowing DOI to better process permit applications as demand increases.

The 2008 Budget includes $4 million for environmental studies of new areas under consideration for oil and gas leasing in the Minerals Management Service's (MMS) next five-year offshore leasing plan. Consistent with the plan and recent legislation, new offshore areas in the Gulf of Mexico are now available for oil and gas leasing. These areas will potentially allow for new domestic production of one billion barrels of oil and six trillion cubic feet of natural gas, thereby reducing U.S. dependence on foreign oil and keeping down the costs of home heating and electricity. In 2007, MMS will increase the standard royalty rate for offshore oil and gas production from 12.5 percent to 16.7 percent, ensuring the public is fairly compensated for the sale of the Outer Continental Shelf mineral resources. In addition, MMS will publish new rules to ensure that all future royalty relief for offshore leases is subject to appropriate price thresholds that, if exceeded, will result in the automatic termination of royalty relief.

The Administration continues to support authorizing limited exploration and development on the coastal plain of the Arctic National Wildlife Refuge (ANWR), using the strictest environmental standards. DOI estimates that this area holds between 5.7 billion and 16 billion barrels of recoverable reserves, or, at peak production, up to one million barrels per day of new domestic oil supply. This daily production is equivalent to nearly 10 percent of the Nation's current daily imports. The 2008 Budget will support necessary activities to begin ANWR leasing and fund continued leasing of the National Petroleum Reserve-Alaska.

The President's Budget continues the Administration's commitment to protecting wildlife habitat while maintaining energy production through the Healthy Lands Initiative. This initiative seeks to transform decision making from a parcel-by-parcel approach to a landscape approach that preserves habitat and benefits wildlife. This will allow the Bureau of Land Management—in partnership with leaseholders, private landowners, and Government agencies—to meet America's need for increased access to energy, while mitigating impacts on wildlife and preventing the listing of certain species.

Promoting Safety and Schools in Indian Country

The spread of methamphetamine has reached dangerous levels in Indian communities and threatens the future of young Native Americans. Recognizing this, the 2008 Budget provides an extra $16 million for a Safe Indian Communities Initiative that will increase law enforcement presence and training on tribal lands to combat the production and distribution of methamphetamine. The initiative will also enhance the staffing and training of detention officers in response to the increase in violent offenders incarcerated in Indian detention facilities.

The Indian Education Initiative of $15 million focuses on management of Bureau of Indian Affairs schools by targeting school programs to improve student achievement and address transportation needs.

Partnering for Cooperative Conservation

Conserving the Nation's native fish, migratory birds and other species at risk, and marine environments, is a shared goal among Federal, State, local, and tribal governments, private landowners, corporations, and non-profit organizations. These cooperative efforts have helped achieve results by leveraging resources, promoting innovation, and inspiring citizen stewardship. The 2008 Budget includes $324 million for cooperative conservation programs at DOI.

Some of the Department's most successful programs exemplify cooperative conservation. The State and Tribal Wildlife grants program, for example, supports conservation projects outlined in State Comprehensive Wildlife Conservation Plans. Grants provided by the North American Wetlands Conservation Act program conserve wetlands and associated upland habitats needed by waterfowl and other migratory birds. The Budget also supports an Open Rivers Initiative to repair river ecosystems and enhance populations of key species by removing small, obsolete dams and river barriers.

Maintaining Reliable Water Resources for People, Communities, and Wildlife

The President's Budget includes $25 million to promote water conservation efforts through the Water 2025 initiative and other Bureau of Reclamation water conservation programs. These programs will help establish a "Western Water" perspective, ensuring the most effective use of funding while maintaining and securing reliable water sources in the West.

Larry Turner

Restored wetlands in the Williamson River Delta, Oregon.

Interior and other agencies are working with residents in the Klamath Basin to secure water resources while sustaining fish and diverse wildlife communities. In 2008, the Department will collaborate with Federal and State agencies, Tribes, and the public to develop a basin-wide recovery plan that addresses water supply and quality, fish habitat, and fish populations. While the Bureau of Reclamation will use waterbanks to maintain water flows, the Fish and Wildlife Service will continue to examine the relationship between the flows and habitat. The Bureau of Indian Affairs will also continue to work to restore spawning habitats by removing Oregon's Chiloquin Dam.

Department of the Interior

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Bureau of Land Management	1,851	1,756	1,846
Minerals Management Service	156	158	161
Office of Surface Mining	293	292	168
Bureau of Reclamation/CUPCA	1,059	923	1,001
U.S. Geological Survey	958	963	975
Fish and Wildlife Service	1,301	1,270	1,287
National Park Service	2,228	2,135	2,365
Bureau of Indian Affairs	2,256	2,230	2,229
Office of the Special Trustee	226	181	196
All other	445	424	382
Total, Discretionary budget authority	10,773	10,332	10,610
Memorandum: Budget authority from enacted supplementals	*446*	—	—
Total, Discretionary outlays	11,031	10,932	10,944
Mandatory Outlays:			
Existing law	−1,721	219	−92
Legislative proposals	—	6	−60
Total, Mandatory outlays	−1,721	225	−152
Total, Outlays	9,310	11,157	10,792
Credit activity			
Guaranteed Loan Disbursements:			
Indian guaranteed loan program	62	91	84
Total, Guaranteed loan disbursements	62	91	84

DEPARTMENT OF JUSTICE

Since 2001, the Administration:

- Transformed the FBI, dramatically improving the Nation's ability to prevent and combat terrorism;
- Made $2.5 billion in investments in critical crime fighting initiatives, including Project Safe Neighborhoods and the DNA Initiative, paving the way for record low violent crime rates; and
- Provided more than $14 billion to the Drug Enforcement Administration and the Organized Crime Drug Enforcement Task Forces, leading to the disruption or dismantlement of over 5,000 major drug trafficking organizations.

The President's 2008 Budget:

- Includes $183 million in enhancements for the FBI's counterterrorism, intelligence, and other national security programs;
- Provides $200 million for a new Violent Crime Reduction Partnership Initiative to help communities address local increases in violent crime;
- Replaces a fragmented, duplicative system of Justice grants, comprised of more than 70 programs, with four common-sense programs that address violent crime, violence against women, protecting children and enhancing juvenile justice, and public safety and protection;
- Includes $2.8 billion to combat the spread of illegal drugs;
- Includes funding for essential Federal detention and incarceration programs, including $169 million to provide new prison capacity; and
- Provides $420 million to secure the Nation's schools and enhance efforts to protect its children from abuse and exploitation.

FOCUSING ON THE NATION'S PRIORITIES

The Department of Justice (DOJ) plays a vital role in protecting our Nation through its efforts to fight terrorism, thwart espionage by foreign powers, and capture, prosecute, and imprison those who break Federal criminal laws. While combating terrorism is the first priority of the Department, it also leads Federal efforts to fight violent crime and eliminate drug trafficking organizations within the United States. The 2008 Budget continues the Department's focus on combating terrorism. Although crime rates remain at historic lows, the Administration is also taking strong steps to counter violent crime rate increases being experienced in some cities.

In addition to increasing resources for the Department's key law enforcement, prosecutorial, and other programs, the Budget provides $1.2 billion in assistance to State and local partners. The Attorney General proposes to create the new Violent Crime Reduction Partnership Initiative to target resources to those communities with the greatest crime problems. The 2008 Budget also proposes to consolidate numerous small grant programs to better target resources to the Nation's most critical needs and increase the efficiency and effectiveness of the grant programs.

Countering the Threat of Terrorism

As the lead bureau within DOJ for counterterrorism and intelligence, the Federal Bureau of Investigation (FBI) has grown significantly over the last five years. The Budget provides $3.8 billion for the FBI's counterterrorism, counterintelligence, and intelligence programs, including $183 million for critical national security enhancements. This funding will support additional agents and intelligence analysts for counterterrorism cases, analytical and tactical support for those cases, and critical information technology and infrastructure investments.

The newly formed National Security Division (NSD) enhances the Department's ability to carry out its top priority of preventing terrorist attacks in the United States and protecting the Nation's security. It consolidates the strengths of the Counterterrorism and Counterespionage sections of the Criminal Division with the expertise of the lawyers from the Office of Intelligence Policy and Review, who specialize in the Foreign Intelligence Surveillance Act. The 2008 Budget includes $78 million for NSD, including $7 million in enhancements for the prevention and prosecution of terrorism.

Addressing Violent Crime in America's Communities

The President's Budget provides $304 million in enhancements for DOJ to reverse the recent uptick in violent crime in some areas, including criminal acts related to gangs and illegal immigration. The request includes:

- $22 million to fund the DNA Initiative to address growing workloads resulting from recent legislative requirements and improve system capabilities;
- $12 million to fund anti-gang efforts in the Bureau of Alcohol, Tobacco, Firearms, and Explosives and the United States Attorneys' offices; and

FBI

- $70 million to help fund improvements in border security, prevent the entry of illegal drugs and aliens, and accelerate the adjudication of immigration cases.

An additional $200 million would be targeted through the Violent Crime Reduction Partnership Initiative to support multi-jurisdictional task forces to help communities that have experienced an increase in violent crime.

The 2008 Budget also provides for the additional resources to support top priority initiatives aimed at expanding resources to combat gun running and gang violence, including the flow of illegal drugs and firearms through the Southwest border.

Fighting the Spread of Illegal Drugs

The President's Budget provides $2.8 billion to continue the fight against illegal drugs, including $2.0 billion for the Drug Enforcement Administration (DEA) and $509 million for the Organized Crime and Drug Enforcement Task Force (OCDETF) program. Together, DEA and OCDETF fight the spread of illegal drugs and seek to dismantle and disrupt major drug trafficking organizations.

The Budget also provides $350 million in funding for criminal justice needs, including drug-related priorities, through the new, consolidated Byrne Public Safety and Protection Grants. These competitive grants will provide funding for State and local needs, including drug courts, methamphetamine lab cleanup, Project Safe Neighborhoods, the DNA Initiative, and offender reentry.

Protecting America's Children from Exploitation and Abuse

The President's Budget includes an additional $25 million to reduce incidents of child exploitation and abuse, including those facilitated by the use of computers and the Internet. The 2008 Budget also includes $280 million for competitive grants to address violence against children, including sexual exploitation through the Internet, and to address multiple juvenile justice and child safety needs.

The FBI will expand its efforts to prevent and investigate sexual predators who use the Internet to sexually exploit children and to reduce incidents of child prostitution. The FBI would be aided by increased prosecutorial support from the United States Attorneys. In addition, the Budget will provide $284 million to the United States Marshals Service for fugitive apprehension, including an additional $8 million to aggressively pursue apprehension of sexual predators under the provisions of the Adam Walsh Act.

Enhancing Funding for Detention and Incarceration

The 2008 Budget provides $5.4 billion for the Bureau of Prisons (BOP) and $1.3 billion for the Office of the Federal Detention Trustee (OFDT). These DOJ components ensure that Federal criminals and those awaiting trial or sentencing are safely and cost-effectively incarcerated and detained. At present, there are more than 193,000 inmates in BOP's custody, of whom approximately 64 percent were convicted of immigration or drug-related offenses. The population of Federal detainees in the custody of OFDT has experienced record growth, having more than doubled during the past decade. The President's Budget requests $169 million to expand prison capacity by completing the first phase of the activation of a new prison in Pollock, Louisiana, completing a current prison project in Mendota, California, and expanding the number of contract prison beds by more than 1,100.

Department of Justice

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Federal Bureau of Investigation	5,665	5,699	6,431
Drug Enforcement Administration	1,676	1,684	1,803
Federal Prison System	4,920	4,921	5,363
United States Marshals Service	783	778	900
Bureau of Alcohol, Tobacco, Firearms, and Explosives	911	916	1,014
Detention Trustee	1,162	1,106	1,294
United States Attorneys	1,583	1,577	1,748
General Legal Activities	653	654	751
National Security Division	—	—	78
Office of Justice Programs, COPS, Office on Violence Against Women	2,432	2,481	1,234
Organized Crime and Drug Enforcement Task Force	482	485	509
All other	812	504	394
Subtotal, Discretionary budget authority	21,079	20,805	21,519
Less Crime Victims Fund cancellation	−19	−1,371	−1,338
Total, Discretionary budget authority	21,060	19,434	20,181
Memorandum:			
Budget authority from enacted supplementals	*365*	—	—
Additional funding requirements	—	*173*	*146*
Total, Discretionary outlays	22,359	20,303	21,378
Total, Mandatory outlays	1,032	2,814	2,743
Total, Outlays	23,391	23,117	24,121

DEPARTMENT OF LABOR

Since 2001, the Administration:

- Strengthened the pension system to ensure that Americans have a secure retirement;
- Posted the strongest-ever worker protection enforcement results;
- Revised outdated regulations in order to better protect workers by strengthening overtime protections and improving the transparency of labor union finances;
- Published the first-ever regulations explaining the reemployment rights and protections for National Guard, Reserve, and active duty servicemembers serving in the War on Terror and elsewhere around the world;
- Removed barriers to the participation of faith-based and community organizations in grant programs; and
- Created programs to bring community and technical colleges, employers, and job-seekers together to prepare workers for high growth jobs. To date, these programs have prepared 51 thousand workers for high-growth jobs.

The President's 2008 Budget:

- Protects workers' safety, health, pay and benefits through strong enforcement of the Nation's labor laws;
- Expands training opportunities to more workers by streamlining the job training system to better prepare workers to compete for 21st Century jobs;
- Safeguards workers' pensions by assuring the long-term solvency of the Federal pension insurance system; and
- Reduces improper Unemployment Insurance payments and Unemployment Insurance tax evasion.

FOCUSING ON THE NATION'S PRIORITIES

Protecting Workers

The President's 2008 Budget builds upon the Department of Labor's (DOL's) successes in advancing worker protections, providing $1.5 billion to ensure that DOL meets its responsibilities under more than 180 worker protection laws. Since 2001, increased productivity in the Department's Employment Standards Administration has resulted in record-level recoveries of back wages, improved employer compliance with wage laws, and increased transparency of union finances.

Ensuring the safety of the Nation's workplaces is a key part of DOL's mission. While workplace fatalities are at historically low levels, more work remains. 2006 was a deadly year in mining, with 47 fatalities in the coal industry—the most since 1995. To address these problems and implement improvements in the MINER Act, the President's Budget includes a $36 million, or 13-percent, increase for the Mine Safety and Health Administration (MSHA) to strengthen enforcement—particularly in the Nation's more than two thousand coal mines. This increase will allow MSHA to retain the 170 additional coal enforcement personnel that were hired with 2006 supplemental funding.

Reforming the Job Training System

The 2008 Budget again proposes job training reforms that will give States more flexibility to deliver workforce services tailored to their unique needs and focus resources on training workers instead of supporting bureaucracy. The reforms will consolidate several similar programs, cut Federal red tape, limit amounts spent on overhead, and create Career Advancement Accounts—worker-directed accounts that give workers the resources necessary to increase their skills and better compete for 21st Century jobs. The President's job training reform proposal would significantly increase the number of workers receiving training while saving taxpayer dollars.

Strengthening the Link Between Training and Jobs in Demand

Over the last several years, the Administration has made the Nation's workforce investment system more responsive to the needs of workers and employers. The 2008 Budget continues these important initiatives. The Budget requests $150 million for Community-Based Job Training Grants, which help community colleges and related organizations expand their capacity to train workers for jobs that are in demand in local economies. Since 2005, the program has provided grants of $250 million—funds that will be used to train an estimated 100,000 workers. Complementing this program is the High Growth Job Training Initiative, which supports partnerships of training providers, employers, and the public workforce investment system that commit to training workers for jobs in high growth industries like biotechnology and health care. Since its inception, the program has trained approximately 51,000 workers, and a total of 128,000 are expected to be trained by 2008.

Safeguarding Worker Pensions

The Pension Benefit Guaranty Corporation (PBGC) protects the defined-benefit pension plans of 44 million Americans against losses that may occur when a plan terminates. When underfunded pension plans terminate, PBGC assumes responsibility for paying the insured benefits. More than 620,000 workers and retirees now receive their benefits from PBGC. The recent termination and anticipated terminations by U.S. businesses of large pension plans have put a strain on the pension insurance system and impose an increasing burden on employers who sponsor healthy pension plans.

In his 2007 Budget, the President proposed comprehensive pension reform to strengthen protections for the pensions upon which American workers rely. The Congress responded by passing, with bipartisan support, the Pension Protection Act. The Act made significant structural reforms to the retirement system, but further premium changes are needed to address the $19 billion gap between PBGC's liabilities and its assets. Although PBGC will be able to pay benefits for some years to come, it is projected to be unable to meet its long-term obligations under current law. If there is not enough money in the system to cover worker benefits, taxpayers are at risk for having to cover the shortfall.

The 2008 Budget reflects the President's continued commitment to restoring the solvency of the pension system by proposing to adjust insurance premiums paid by underfunded pension plans. PBGC premiums are currently far lower than what a private financial institution would charge for insuring the same risk. These reforms would improve PBGC's financial condition and safeguard the future benefits of American workers.

Reducing Improper Unemployment Insurance Benefit Payments and Enhancing Unemployment Tax Integrity

The Unemployment Insurance (UI) program, a joint Federal-State partnership funded through employer payroll taxes, provides monetary benefits to eligible workers who become unemployed through no fault of their own. Despite States' efforts to reduce improper payments, over $3.3 billion in benefits were mistakenly paid in 2006. The Administration proposes a package of legislative changes that would reduce UI improper payments by $4.8 billion and reduce employer tax evasion by almost $400 million over 10 years. The legislative proposal would:

- Impose a penalty for UI benefit overpayments resulting from fraud;
- Enlist private collection agencies in the recovery of fraud overpayments;
- Penalize employers when their repeated inactions lead to overpayments to former employees;
- Collect delinquent benefit overpayments and unemployment taxes through garnishment of Federal income tax refunds;
- Boost States' resources to go after benefit overpayments and UI tax evasion by allowing them to use a portion of recovered funds on fraud and error reduction; and
- Decrease benefit overpayments by providing more accurate date-of-hire information in State and national new hire directories so that States can quickly stop unemployment benefit payments to those people who have gone back to work.

Department of Labor

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Training and Employment Services: [1]			
Existing law	4,931	5,254	4,155
Legislative proposal	—	—	745
Unemployment Insurance Administration	2,508	2,508	2,561
Employment Service/One-Stop Career Centers: [1]			
Existing law	850	846	778
Legislative proposal	—	—	−745
Community Service Employment for Older Americans	432	432	350
Bureau of Labor Statistics	537	537	574
Occupational Safety and Health Administration	472	472	490
Mine Safety and Health Administration	278	278	313
Employment Standards Administration	411	411	448
Employee Benefits Security Administration	134	134	147
Veterans' Employment and Training	222	223	228
Departmental Management	231	231	252
Bureau of International Labor Affairs	73	73	14
Office of Disability Employment Policy	28	28	19
All other	195	271	240
Total, Discretionary budget authority	11,302	11,697	10,569
Memorandum: Budget authority from enacted supplementals	*167*	—	—
Total, Discretionary outlays	11,902	12,106	11,437
Mandatory Outlays:			
Unemployment Insurance Benefits	31,275	31,994	34,238
Trade Adjustment Assistance	764	837	889
Pension Benefit Guaranty Corporation [2]	−2,618	316	1,115
Black Lung Benefits Program: [3]			
Existing law	1,377	1,371	1,344
Legislative proposal	—	—	2,315
Federal Employees' Compensation Act:			
Existing law	68	196	93
Legislative proposal	—	—	−9
Energy Employees Occupational Illness Compensation Program Act	1,017	1,112	1,368

Department of Labor—Continued

(In millions of dollars)

	2006 Actual	Estimate 2007	Estimate 2008
H–1B Training and Foreign Labor Certification Administration:			
Existing law	66	177	157
Legislative proposal	—	—	65
All other	−684	−661	−708
Total, Mandatory outlays	31,265	35,342	40,867
Total, Outlays	43,167	47,448	52,304
Credit activity			
Direct Loan Disbursements:			
Pension Benefit Guaranty Corporation	87	93	93
Total, Direct loan disbursements	87	93	93

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[1] 2008 reflects the Administration's proposal to merge four grant programs and create Career Advancement Accounts.

[2] Net mandatory outlays are negative when offsetting collections exceed outlays. The Budget proposal to increase premiums for unfunded pension plans would have no outlay effects until 2009.

[3] 2008 reflects the Black Lung debt refinancing, which includes a one-time payment to Treasury. There is no Government-wide budgetary effect until 2014, when the excise tax rates would be extended.

DEPARTMENT OF STATE AND OTHER INTERNATIONAL PROGRAMS

Since 2001, the Administration:

- Promoted freedom, political rights, and civil liberties in the world by advancing democratic institutions and values, supporting cultural exchanges, increasing broadcasts to developing and oppressed countries, and doubling funding for the National Endowment for Democracy;
- Initiated the President's Emergency Plan for AIDS Relief. To date, the Emergency Plan has funded life-saving antiretroviral treatment for over 822,000 people in 15 nations heavily afflicted with HIV/AIDS and provided care services and prevention awareness to millions;
- Provided humanitarian assistance to people affected by the crisis in Lebanon, the continuing violence in the Darfur region of Sudan, the drought in the Horn of Africa, the 2004 tsunamis in Southeast Asia, and other natural and manmade disasters;
- Transformed America's diplomatic presence overseas, constructing 41 new secure overseas diplomatic facilities, repositioning staff overseas to higher priority locations, and developing an active response corps within the Department to deploy quickly to crises;
- Established the Millennium Challenge Corporation to promote sustainable economic growth in countries that rule justly, invest in their people, and encourage economic freedom;
- Established a Director of U.S. Foreign Assistance who sets strategic direction for foreign assistance to increase strategic coherence, transparency, and accountability for results; and
- Directed $434 million to international avian and pandemic influenza efforts, and established the Avian Influenza Action Group at the Department of State to coordinate government-wide international activities to address avian influenza and the pandemic threat.

The President's 2008 Budget:

- Strengthens democracy and self-sufficiency in Iraq and Afghanistan and builds the capacity of America's allies to fight terrorists through anti-terrorism and security assistance;
- Expands the number of people in Africa and the Caribbean receiving life-saving treatment for HIV/AIDS to two million by 2009 and meets the President's commitment to fight malaria in Africa;
- Helps recipient nations to reduce poverty by promoting health, education, economic growth, and democratic governance;
- Provides $3 billion for the Millennium Challenge Account for promoting sustainable economic growth in some of the world's poorest countries; and
- Transforms the U.S. diplomatic posture overseas by repositioning diplomats to critical locations and countries, enhancing diplomatic activities, and increasing America's capacity to respond to crises.

FOCUSING ON THE NATION'S PRIORITIES

Securing Peace

Supporting Freedom in Iraq. The President has stated "a successful strategy for Iraq goes beyond military operations. Ordinary Iraqi citizens must see that military operations are accompanied by visible improvements in their neighborhoods and communities." The President's Budget assists the Iraqi government in implementing a new strategy to improve security, promote national reconciliation, and spur economic growth. While Iraqis are increasingly taking the lead in defining their own future, assistance from the United States and other countries remains critical to help them increase governmental capacity, promote civil society, and stabilize the economy. The 2007 supplemental request will help Iraqis create jobs, strengthen governing capacity, accelerate economic reforms, and support the rule of law. The Budget continues efforts to accelerate the transition to full Iraqi self-reliance. The total 2008 request provides nearly $1.4 billion for programs supporting a wide range of projects to advance Iraq's political, security and economic goals. Included in this request is over $950 million in emergency assistance programs that will complement U.S. military objectives.

Building a Stable Afghanistan. The United States is committed to supporting Afghanistan in its transition to a free and modern nation. Although Afghanistan is led by a democratically elected government, the country continues to face opposition from terrorist forces seeking to establish safe havens in the border regions of Afghanistan and Pakistan. Assistance from the United States is vital to ensuring that the Afghan government can defeat the terrorists and stabilize their country. The 2007 supplemental proposal provides funds to help the Afghan government cope with the insurgents by supporting key infrastructure and governance projects. The 2008 Budget provides $1.4 billion to stimulate economic growth, generate jobs for local Afghans, and extend the reach of the central government into distant areas of the country. Funds will be used to build roads, expand power generation, develop the capacity of elected leaders, and invest in health and education of the Afghan people. This funding will also be used to help the government fight the drug trade, interdict drug-trafficking networks, and develop the rural economy to expand the areas where Afghan farmers have viable alternatives to poppy cultivation. Included in the 2008 Budget is $370 million for emergency assistance programs that will complement U.S. military objectives.

Strengthening Lebanon. The United States is committed to support the democratic government of Lebanon. In July 2006, as nearly one million Lebanese fled their homes, the United States provided immediate assistance to those requiring humanitarian support and is providing over $230 million in post-conflict assistance. The 2007 supplemental request and 2008 Budget continue America's support for Lebanon with resources to strengthen government capacity, promote economic reform, and support Lebanese security forces.

Spreading Hope and Freedom

Promoting Democratic Transition. In his second inaugural address, the President stated, "The survival of liberty in our land increasingly depends on the success of liberty in other lands." The Budget supports countries that have committed to democratic reforms by helping them strengthen governance and the rule of law. The President also stated that it is "the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world." To advance this goal, the 2008 Budget supports programs that foster independent media, pluralist political parties, voter education and election monitoring, and human rights. The Budget also includes $80 million for the National Endowment for Democracy to promote democratic movements and institutions.

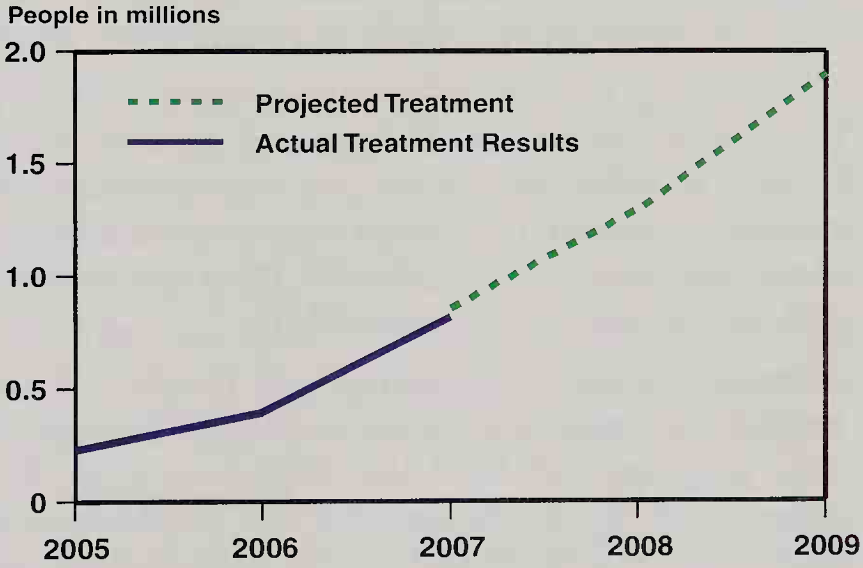
Winning the War of Ideas. International broadcasting and educational and cultural exchange programs are key to winning the war of ideas. The President's Budget funds broad outreach programs to developing and oppressed countries around the world. The Budget supports the Broadcasting Board of Governors' radio, television, and internet broadcasting to a worldwide audience, with a specific focus on broadcasting throughout the Middle East and to people living under tyranny in North Korea, Iran, and Cuba. The 2008 Budget also provides $486 million to foster mutual understanding between the United States and the world through educational and cultural exchanges.

Preventing and Responding to Global Challenges and Humanitarian Needs

Leading the Response on HIV/AIDS: The President's Emergency Plan for AIDS Relief (PEPFAR). A key priority of the Emergency Plan is providing life-saving antiretroviral treatment to people living with HIV/AIDS.

When the President announced his Emergency Plan for AIDS Relief, he committed to an ambitious five-year target to support antiretroviral treatment for two million HIV-infected individuals in the 15 countries that are home to approximately half of the world's HIV-positive people. As of September 2006, the Emergency Plan had already supported treatment for approximately 822,000 people. The 2008 Budget meets the President's commitment by providing $4.2 billion to fund treatment, prevention, and care activities in these 15 countries, and an additional $1.2 billion for HIV/AIDS programs worldwide, research on the disease, and contributions to multilateral partner organizations.

PEPFAR Goal: Treatment of 2 Million People



Fighting Malaria. The President's Malaria Initiative for Africa has increased malaria prevention and treatment in Angola, Tanzania, and Uganda, benefiting over two million people. In June 2006, Malawi, Mozambique, Rwanda, and Senegal were added to the program. In December 2006, President Bush announced an additional eight countries: Ghana, Madagascar, Mali, Zambia, Kenya, Liberia, Ethiopia, and Benin. The 2008 Budget provides $300 million for this initiative, as well as funding for ongoing malaria programs worldwide.

Responding to Needs in Sudan. The United States continues to be the world's leader in providing food, shelter, water, sanitation, and other assistance to the people of Sudan. The Budget continues strong support for the victims of violence in the Darfur region of Sudan, providing both humanitarian and peacekeeping assistance.

Protecting Refugees. The 2008 Budget includes funding for basic life support and protection of refugees, conflict victims, and internally displaced persons overseas. Through international and non-governmental organizations, the United States provides protection, shelter, safe water, and health care, among other services. In cases where voluntary return for refugees is not a viable option, the United States continues to lead the international community in resettling refugees.

Promoting International Energy Cooperation. The Asia-Pacific Partnership, in concert with its partners Australia, China, India, Japan, and South Korea, which account for more than half of the world's economy, population, and energy use, has initiated nearly 100 projects and actions to substantially increase and accelerate investment in the promotion of energy security, reduce air pollution, and address climate change in ways that foster sustainable economic growth and poverty reduction. The 2008 Budget continues to support this effort by including $30 million to sustain and increase activities through this partnership.

Supporting Transformational Diplomacy and Development

The Secretary of State has described Transformational Diplomacy and Development as "working with our many partners around the world to build and sustain democratic, well-governed states that will respond to the needs of their people—and conduct themselves responsibly in the international system."

Extending Our Reach. The State Department has repositioned and restructured its personnel and resources to address critical emerging priorities in the post September 11th environment. From 2006 through 2008, the Department will reposition 300 officers overseas to meet priority Transformational Diplomacy requirements. The 2008 Budget supports additional training, especially in critical languages such as Arabic, enhanced security and consular demands, and a deployable cadre of staff prepared to respond quickly to stabilization missions overseas.

Delivering Results. The U.S. Government has restructured how it manages foreign assistance to better meet today's challenges and achieve results. With the goal of increasing accountability for impact, strategic coherence, and transparency, the newly created Director of Foreign Assistance sets strategic direction for foreign assistance to ensure that U.S. resources are leveraged effectively to help countries become self-sufficient, meet the needs of their people, strengthen democratic institutions, and sustain strategic partnerships.

Protecting and Supporting our People. To ensure the safety of U.S. Government employees abroad, the Administration continues to implement the Capital Security Cost-Sharing Program. This program will fund the construction of 150 new embassy and consulate compounds over 14 years (2005–2018). Since 2001, the State Department has relocated more than 11,000 Government employees to safer facilities. The 2008 Budget supports the construction of 11 new secure facilities.

Promoting Development through Good Governance. In 2004, the Millennium Challenge Corporation was created to reduce poverty in some of the world's poorest countries who are committed to ruling justly, investing in their people, and encouraging economic freedom. Representing a new approach to development assistance, the Millennium Challenge Corporation has awarded funding to 11 countries. Building on its successes to date, the President's Budget provides $3 billion to the Millennium Challenge Corporation.

Supporting Private Sector Engagement in Development. The Export-Import Bank provides financing to U.S. companies exporting to developing and emerging markets that lack sufficient private sector financing and that face government-sponsored foreign competition. In the interest of upholding the President's pledge to support an active, but limited government role, the Budget provides for the Export-Import Bank to be self-financed starting in 2008. The Bank will rely on fees collected from borrowers to cover its costs of operations. The Bank will continue to provide competitive financing and fulfill its mandate of supporting U.S. jobs through exports, while operating on a self-sustaining basis.

Department of State and Other International Programs

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Diplomatic and Consular Programs	4,285	4,460	4,943
Education and Cultural Exchange Programs	450	425	486
Embassy Security, Construction, and Maintenance	1,470	1,183	1,599
International Peacekeeping	1,022	1,022	1,107
International Organizations	1,151	1,122	1,354
Economic Support Fund	2,575	2,604	3,320
Emergency Plan for AIDS Relief	1,975	1,853	4,150
International Narcotics and Law Enforcement	584	704	635
Andean Counterdrug Initiative	722	570	443
Migration and Refugee Assistance	783	750	774
Non-proliferation, Anti-terrorism, Demining Programs	396	393	464
Foreign Military Financing	4,452	4,455	4,536
Assistance for Eastern Europe and Baltic States	288	269	289
Assistance for Independent States of the Former Soviet Union	427	435	352
Child Survival and Health	1,598	1,518	1,564
Development Assistance	1,499	1,508	1,041
International Disaster and Famine Assistance	362	349	297
USAID Operating Expenses	624	641	609
Broadcasting Board of Governors	646	644	668
Millennium Challenge Corporation	1,752	1,135	3,000
Export-Import Bank	103	50	1
Overseas Private Investment Corporation	–142	–124	–160
Peace Corps	319	324	334
Multilateral Development Banks	1,277	1,066	1,499
Other State and International Programs	1,612	1,297	1,693
Total, Discretionary budget authority	30,230	28,653	34,998
Memorandum:			
Budget authority from enacted supplementals	*4,068*	*20*	—
Emergency funding for the Global War on Terror	—	*5,610*	*3,302*
Total, Discretionary outlays	29,530	34,331	35,615
Total, Mandatory outlays	–4,210	–1,817	–255
Total, Outlays	25,320	32,514	35,360

Department of State and Other International Programs—Continued

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Credit activity			
Direct Loan Disbursements:			
Export-Import Bank	64	35	133
All other programs	607	714	541
Total, Direct loan disbursements	671	749	674
Guaranteed Loan Disbursements:			
Export-Import Bank	10,691	12,100	12,650
All other programs	1,467	2,654	2,626
Total, Guaranteed loan disbursements	12,158	14,754	15,276

DEPARTMENT OF TRANSPORTATION

Since 2001, the Administration:

- Worked with the Congress to enact a reauthorization of the Department of Transportation's highway, public transportation, and highway safety programs that gives States more flexibility and targets priority areas, such as safety and mobility;
- Helped stabilize the airline industry following the September 11, 2001, terrorist attacks;
- Reached key highway safety goals, including improving the national safety belt usage rate to a record high and reducing the highway fatality rate;
- Completed the largest competitive sourcing effort undertaken by a Federal agency, which will save taxpayers more than $2 billion by consolidating Federal Aviation Administration facilities and modernizing its technologies;
- Launched the Next Generation Air Transportation System initiative to transform the Nation's vital air transportation system; and
- Worked with pipeline users and the Congress to enact new legislation to improve pipeline safety by preventing damage to pipelines and providing help to States who share oversight of pipelines.

The President's 2008 Budget:

- Proposes Federal Aviation Administration reauthorization legislation that would improve the management of the air traffic control system by reforming the system's financing structure; and
- Proposes a new highway congestion initiative that will enable select cities to test innovative approaches for managing traffic and facilitate improvements to major interstate corridors.

FOCUSING ON THE NATION'S PRIORITIES

Building a More Efficient Air Traffic Control System to Meet the Air Travel Demands of the Future

Under the Federal Aviation Administration's (FAA's) current tax structure, which expires at the end of 2007, there is no relationship between the taxes paid by users and the air traffic control services provided by FAA. For example, two identical commercial jets fly between Miami and Boston at the same time of day. One is full of passengers, while the other is nearly empty, yet both impose the same workload on FAA. Since the current tax structure is primarily based on the price of a ticket, FAA collects much more in taxes from the full plane than from the nearly empty plane. Under its reauthorization proposal, FAA aims to create a direct relationship between revenue collected and services received, providing FAA with a stable revenue stream and creating incentives to make the system more efficient and responsive to user needs.

The 2008 Budget includes a reauthorization proposal that transforms FAA's excise tax financing system into a cost-based user fee system. Under this system, aviation users would pay for the actual level of service that FAA provides in managing the use of the national airspace. User fees would enable users to gauge the actual costs of their requirements on the system. By providing clearer price signals, a new direct payment structure will also enable FAA to better target investment and management decisions that provide the greatest system performance benefits. This new model encourages FAA to control costs, increase accountability, and improve its ability to operate like a business.

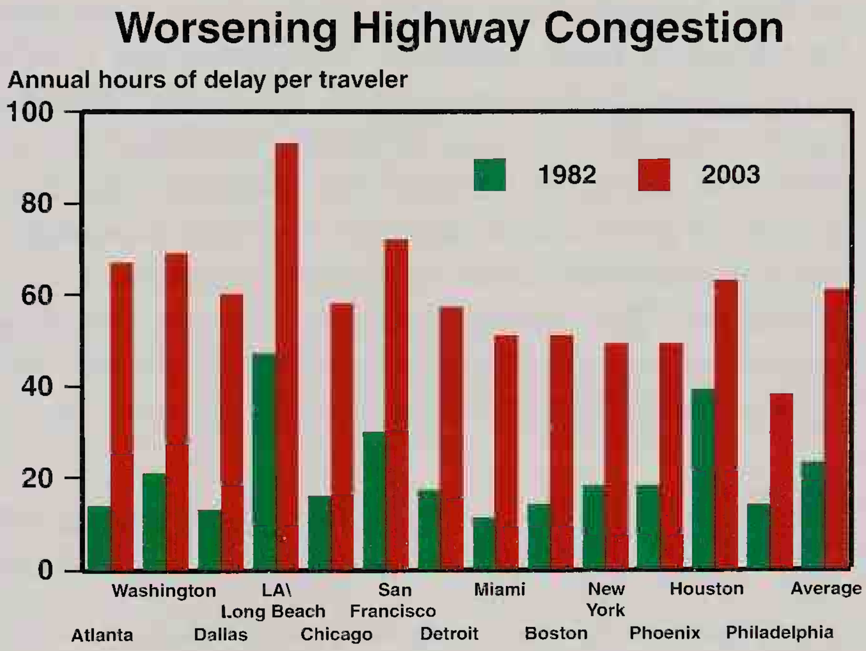
Under the proposal, FAA's financing for air traffic operations will primarily be based on user fees instead of excise taxes. FAA would have the authority to collect the user fees that directly offset the cost of its operations; expenditure of the available fees would be affirmed in the appropriations process. User fees would be collected from commercial aviation operators. General aviation users would continue to pay a fuel tax. Both user fees and fuel tax rates would be calibrated based on the costs that the users impose on the system. FAA would also be able to charge all users a fee for operating in the Nation's most congested airspace. FAA's budget would maintain a general fund component to cover activities that benefit the public good, like safety oversight functions and public use of the airspace. FAA's airport grants program would continue to be funded from fuel taxes paid by all users ($2.75 billion for 2008).

The Budget assumes FAA will implement its new financing system starting in 2009 while other elements of the reauthorization will be effective in 2008. To illustrate the effect of the proposal, the Budget *Appendix* volume also includes material that displays how this would be implemented.

The President's Budget also includes $175 million to support key FAA investments in the Next Generation Air Transportation System (NGATS). Launched in 2003, NGATS is a multi-agency effort that will transform the Nation's air traffic management system to accommodate projected demand and continue to improve air transportation safety and security. The Budget continues FAA investments in satellite navigation and other projects to improve the automation of air traffic management. The reauthorization proposal will help FAA continue to invest in NGATS, and includes proposals to establish pilot programs to encourage airports to take responsibility for maintaining and modernizing equipment to support the transformation of the air traffic control system. The reauthorization proposal includes other programmatic changes and reforms to improve the system. For example, the grants program will empower airports with strong local revenue sources to attract private capital and improve airport performance.

Exploring New Ways to Reduce Highway Congestion

Highway traffic congestion is a pervasive problem that affects every American either directly or indirectly. In 2003, drivers in the 85 most congested urban areas in the United States experienced 3.7 billion hours of travel delay and burned 2.3 billion gallons of wasted fuel for a total cost of $63 billion. In the Nation's 10 most congested areas, each rush hour traveler "pays" an annual virtual "congestion tax" of between $850 and $1,600 in lost time and fuel, spending the equivalent of almost eight work days each year stuck in traffic. In addition to these costs, deterioration in the transportation system makes delivery of goods and services less reliable, has environmental impacts, distorts real estate markets, and robs people of time with their families.



Source: Texas Transportation Institute.

In support of a Department-wide effort to tackle congestion in all modes, the 2008 Budget redirects funds to a new $175 million highway congestion initiative. The program is funded with balances from unneeded Congressional earmarks for highway projects. The Department would make these funds available to local governments to demonstrate innovative ideas for curbing congestion. A select number of large-scale pilot projects would be chosen based on their willingness to implement a comprehensive congestion reduction strategy. That strategy would include a broad demonstration of some form of congestion pricing, commuter transit services, commitments from employers to expand work schedule flexibility, and faster deployment of real-time traffic information. The goals of the initiative are to test new ways to mitigate congestion, evaluate the benefits and costs of these approaches, and determine if they can be applied in other parts of the country. Part of this initiative also includes $25 million for the Corridors of the Future program to enable the Secretary to target a small number of projects that show they can help expand capacity and improve operations along heavily congested interstate travel and trade corridors.

Focusing Amtrak's Spending Priorities

The Administration believes that scarce taxpayer dollars must be spent wisely, including the funds provided to Amtrak. Led by its Board of Directors, Amtrak made some progress in 2006 to strengthen its finances by increasing revenues and controlling costs. While Amtrak's recent performance is encouraging, it continues to under perform overall. Amtrak's system-wide on-time performance again dropped in 2006 to 68 percent, and it required $490 million in operating subsidies, mostly for its money-losing long distance trains. When last measured for 2002, the net Federal subsidy per thousand passenger miles traveled was $199.90 for rail, $5.87 for commercial aviation, and -$.95 for highway users according to the Bureau of Transportation Statistics. While Amtrak carried 24 million passengers in 2006, domestic air carriers that year flew 656 million passengers.

Historically, Amtrak has been hampered by a lack of accountability, poor design, and mismanagement. The latest critical review of Amtrak comes from the Government Accountability Office, which concluded, among several findings, that Amtrak's long-distance trains "show limited public benefits for dollars expended," and that "these routes account for 15 percent of riders but 80 percent of financial losses." To turn the enterprise around, the Administration has urged basic reforms that would empower local communities and ultimately customers to determine the most efficient way to run trains. The Administration expects the Board's newly-installed management to make significant changes required to enable the company to succeed without Federal operating subsidies. The Department plans to administer Amtrak's subsidy with this goal in mind.

The 2008 Budget proposes a subsidy that would require that Amtrak make hard choices about its services and commit to running the railroad more like a business. The request is part of a multi-year program to reduce and then eliminate Amtrak's reliance on Federal operating assistance as required by the Amtrak Reform and Accountability Act of 1997 (49 USC 24101). For 2008, the Budget recommends $900 million for intercity passenger rail, but only $800 million for Amtrak directly. This amount includes $300 million for operating costs, compared to the $490 million Amtrak received in 2006, beginning the phasing out of operating subsidies. The Budget continues to fund Amtrak's infrastructure needs with a capital request of $500 million, which is equal to the 2006 enacted level. This level should underwrite Amtrak's ongoing efforts to rehabilitate the Northeast Corridor between Washington, D.C. and Boston, which is by far its most heavily used and important route. In addition, the President's Budget requests $100 million for capital matching grants to States for intercity passenger rail projects. This new program would give local communities resources to direct investment in facilities that reflect their top rail transportation priorities. The Administration believes the Federal Government should help States fund capital projects where there is strong demand for rail service, and help foster managed competition among rail operators to encourage innovation and cost control.

Department of Transportation

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budgetary Resources:			
Federal Aviation Administration	14,271	14,798	14,077
FAA operations, capital, and research programs (non-add)	*10,756*	*11,283*	*11,327*
Federal Highway Administration	34,206	31,477	37,176
Federal-Aid Highway Obligation Limitation (non-add)	*34,183*	*35,551*	*39,585*
Federal-Aid Highway rescission of contract authority (non-add)	*−4,229*	*−4,261*	*−2,000*
Federal Motor Carrier Safety Administration	490	455	528
National Highway Traffic Safety Administration:			
Existing law	806	799	711
Legislative proposal	—	—	122
Federal Railroad Administration	1,502	1,324	1,071
Intercity Passenger Rail (non-add)	*1,293*	*1,114*	*900*
Maritime Administration	298	212	295
Federal Transit Administration	9,853	8,529	9,423
Federal Transit Administration Obligation Limitation (non-add)	*8,263*	*6,910*	*7,873*
St. Lawrence Seaway Development Corporation	16	16	17
Pipeline and Hazardous Materials Safety Administration	115	112	119
Research and Innovative Technology Administration	6	6	12

Department of Transportation—Continued

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
All other programs (including offsetting collections)	267	203	128
Total, Discretionary budgetary resources [1]	61,830	57,931	63,679
Memorandum: Budget authority from enacted supplementals	*3,501*	—	—
Total, Discretionary outlays	59,236	62,713	65,811
Mandatory Outlays:			
Federal Aviation Administration	–181	–158	1
Federal Highway Administration	1,080	1,300	1,339
Federal Railroad Administration	–4	–2	–5
Maritime Administration	274	198	145
Pipeline and Hazardous Materials Safety Administration	12	15	16
All other programs (including offsetting collections)	–275	–291	–275
Total, Mandatory outlays	906	1,062	1,221
Total, Outlays	60,142	63,775	67,032
Credit activity			
Direct Loan Disbursements:			
Transportation Infrastructure Finance and Innovation Program	54	330	1,393
Railroad Rehabilitation and Improvement Program	79	363	600
Total, Direct loan disbursements	133	693	1,993
Guaranteed Loan Disbursements:			
Transportation Infrastructure Finance and Innovation Program	—	200	200
Maritime Guaranteed Loans (Title XI)	140	100	—
Minority Business Resource Center	5	19	18
Total, Guaranteed loan disbursements	145	319	218

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[1] Includes both discretionary budget authority, obligation limitations, and rescissions.

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DEPARTMENT OF THE TREASURY

Since 2001, the Administration:

- Implemented a series of major economic policy changes—including the Economic Growth and Tax Relief Reconciliation Act in 2001 and the Jobs and Growth Tax Relief Reconciliation Act in 2003—which have helped the economy generate more than seven million new jobs. Since early 2003, real GDP has grown at an average annual rate of 3.6 percent;
- Improved taxpayer service by increasing the percentage of calls answered by the Internal Revenue Service from just 56 percent in 2001 to 82 percent in 2006, and by providing a new web-based service, which 25 million people use to easily check the status of their refunds;
- Helped protect the financial markets and their critical infrastructure following the attacks on September 11th;
- Led the international community in fighting the financial War on Terror, including efforts to safeguard the financial system from illicit abuse by North Korea and Iran; and
- Promoted knowledge about each of the 50 States, their history and geography, and the rich diversity of the national heritage through the 50 State Quarters® Program and the newly launched Presidential $1 Coins Program.

The President's 2008 Budget:

- Supports Treasury's efforts to maintain the strength and competitiveness of the U.S. economy, including U.S. financial markets and institutions;
- Invests in increased tax enforcement and makes targeted changes in the tax code to improve tax compliance—reducing the "tax gap";
- Continues to improve taxpayer service by expanding volunteer tax assistance and increasing funds for research to determine the most effective means to help taxpayers;
- Provides additional funding to support Treasury's efforts to address critical economic challenges and opportunities with foreign countries, including China; and
- Provides the resources necessary to continue fighting the financial War on Terror by disrupting the support structures of terrorists, narcotics smugglers, and proliferators of weapons of mass destruction.

FOCUSING ON THE NATION'S PRIORITIES

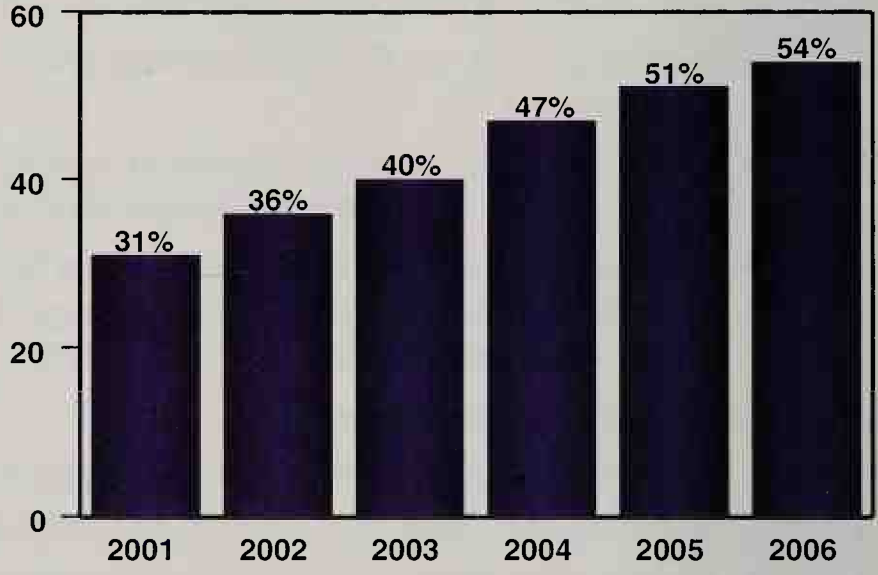
Leading the Charge for a Strong Economy

The Department of the Treasury promotes global economic growth and stability and advocates for greater economic opportunity and prosperity for U.S. citizens and people around the world. Treasury has taken the lead in reducing the tax burden on working Americans and ensuring that financial regulatory regimes are flexible and effective. Treasury is also leading efforts to reform the major entitlement programs, Medicare and Social Security, to ensure they continue to meet their missions without placing undue burden on future generations of Americans. Treasury supports trade liberalization and fiscal discipline by negotiating and implementing international agreements that open markets and create new opportunities for U.S. exporters.

Improving Tax Fairness through Better Compliance

Most taxpayers comply with the law by filing and paying their taxes on time, resulting in a compliance rate of approximately 86 percent. In total, those who do not comply with the law underpay their taxes by $290 billion per year (based on 2001 data). While this tax gap can never be entirely eliminated, the current compliance level is too low and non-compliant taxpayers impose an unacceptable burden on the rest of the taxpayers and on the economy. Treasury published an ambitious strategy in 2006 to reduce the tax gap while recognizing that this should not impose unacceptable burdens on taxpayers or hurt our economic competitiveness (*www.ustreas.gov/press/releases/hp111.htm*).

Percent of Individuals Filing Electronically



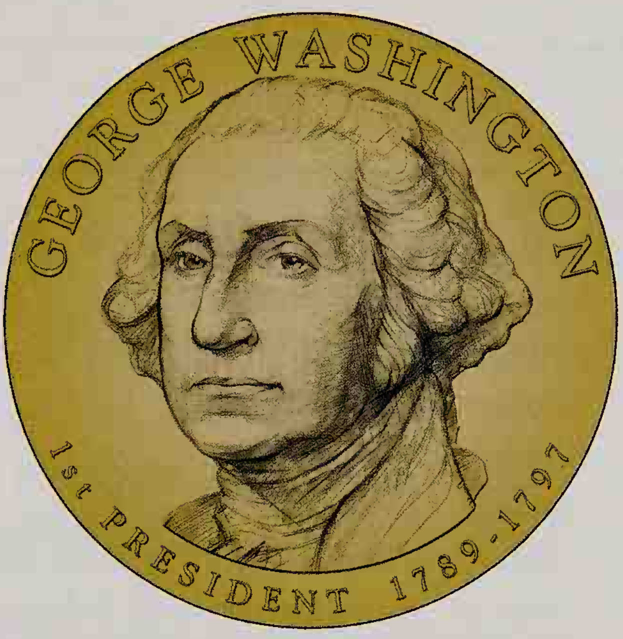
Source: Internal Revenue Service.

The President's 2008 Budget:

- Proposes 16 legislative changes to implement this plan, such as expanding third party information reporting and requiring brokers to report the cost basis for stock sales, which will raise an estimated $29 billion over the next 10 years through improved compliance with existing tax laws (see the Stewardship chapter of the *Analytical Perspectives* volume of the Budget for more information); and
- Invests an additional $410 million in programs at the Internal Revenue Service to reduce the tax gap including research, technology, enforcement, and taxpayer service. These investments will help the bureau increase revenue, determine and implement new ways to help taxpayers, and improve compliance among the minority of taxpayers who do not willingly pay their fair share.

Maintaining the Competitiveness of U.S. Capital Markets

The challenge facing U.S. regulators today is preserving the public interest while preventing excessive regulatory burden on financial markets and institutions. In an effort to encourage a responsible and measured approach, Treasury initiated a review of the issues affecting the competitiveness of the U.S. capital markets. Treasury advocated for the Financial Services Regulatory Relief Act of 2006, which reduced regulatory burdens for a number of financial institutions, and has begun implementing the Basel II capital accords, which will allow U.S. banks to continue to compete effectively in the global marketplace. Treasury has also worked to implement the Bank Secrecy Act in ways that reduce the burden of compliance for financial institutions while maintaining robust controls to prevent money laundering. Treasury will host a conference on capital markets and economic competitiveness in early 2007.



In 2007, Treasury will release the George Washington, John Adams, Thomas Jefferson, and James Madison $1 Coins.

Furthering International Economic Dialogue

The United States encourages other countries to build consumer-driven economies rooted in open markets, to foster freedom, democracy and free enterprise, and to promote free trade. For example, in September 2006, President Bush and the President of China agreed to create a bilateral Strategic Economic Dialogue. The Dialogue is a forum for addressing issues such as maintaining sustainable growth without large trade surpluses, continued opening of China's markets, and environmental policy. President Bush has designated the Secretary of the Treasury to lead the Dialogue for the United States. The 2008 Budget provides resources to support Treasury's role in furthering U.S. discussions with foreign countries, including China. Treasury also provides resources for other international programs, including the U.S. contribution to international financial institutions and multilateral development banks.

Combating Terrorist Financing

The President's Budget places a priority on detecting and disrupting terrorist financing, the proliferation of weapons of mass destruction, drug-trafficking, money laundering, and other financial crimes. In 2006, the Treasury Department worked closely with the Departments of State and Justice and the intelligence community to disrupt targets related to al Qaeda, Hizballah, Jemaah Islamiyah, as well as to disrupt state sponsorship of terror. Treasury has also been a driving force in influencing more than 170 nations to commit themselves to adopt and implement strict anti-money laundering standards and to be evaluated against them.

Creating an All-Electronic Treasury for the 21st Century

Treasury issues 85 percent of the Government's payments, valued at nearly $1.5 trillion annually, including Social Security benefits, tax refunds, and veterans' benefits. In 2006, the Financial Management Service at Treasury continued the transition from paper checks to electronic transactions by issuing 77 percent of its 964 million civilian payments electronically, up from 72 percent in 2001. Each check converted from paper to electronic format saves taxpayers 80 cents. The Department is also collecting more of the $2.9 trillion in payments to the Government electronically, saving 19 cents for each $1,000 collected. The Budget continues investments in technology at Treasury that will increase electronic payments and collections.

Department of the Treasury

(In millions of dollars)

	2006 Actual	Estimate 2007	Estimate 2008
Spending			
Discretionary Budget Authority:			
Internal Revenue Service	10,546	10,438	11,095
Financial Management Service	234	233	235
Departmental Offices	228	228	269
Bureau of the Public Debt	175	176	173
Inspectors General	149	149	159
Alcohol and Tobacco Tax and Trade Bureau	90	90	94
Financial Crimes Enforcement Network	73	71	86
Community Development Financial Institutions Fund	54	41	29
All other	−133	—	−4
Total, Discretionary budget authority	11,416	11,426	12,136
Memorandum:			
Budget authority from enacted supplementals	*2*	—	—
Additional funding requirements	—	*3*	—
Total, Discretionary outlays	11,359	11,299	12,010
Mandatory Outlays:			
Payment where earned income exceeds liability for tax	36,166	36,461	37,573
Legislative proposal	—	—	−337
Payment where child credit exceeds liability for tax	15,473	14,931	14,367
Legislative proposal	—	—	−55
Payment where health care credit exceeds liability for tax	94	102	110
Legislative proposal	—	—	4
Payment where alternative minimum tax credit exceeds liability for tax	—	—	349
Interest payments on advances to the black lung disability fund trust fund	−695	−717	−739
Legislative proposal	—	—	−2,315
Continued Dumping Subsidy Offset Act	226	452	440
Internal revenue collections for Puerto Rico	360	448	408
Legislative proposal	—	—	76
All other	−2,229	−1,213	−632
Total, Mandatory outlays	49,395	50,464	49,249
Total, Outlays	60,754	61,763	61,259
Credit activity			
Direct Loan Disbursements:			
Community Development Revolving Loan Fund	7	5	5

DEPARTMENT OF VETERANS AFFAIRS

Since 2001, the Administration:

- Increased the medical care budget by 83.4 percent, an average of 9.1 percent a year;
- Provided medical care to over 155,000 returning Operation Iraqi Freedom and Operation Enduring Freedom servicemembers in 2006;
- Expanded the national cemetery system to ensure that more aging veterans will have a burial option within 75 miles of their homes;
- Delivered on its promise to award disability claims faster; and
- Expanded and improved seamless transition from active duty to civilian status, including access to Department benefits.

The President's 2008 Budget:

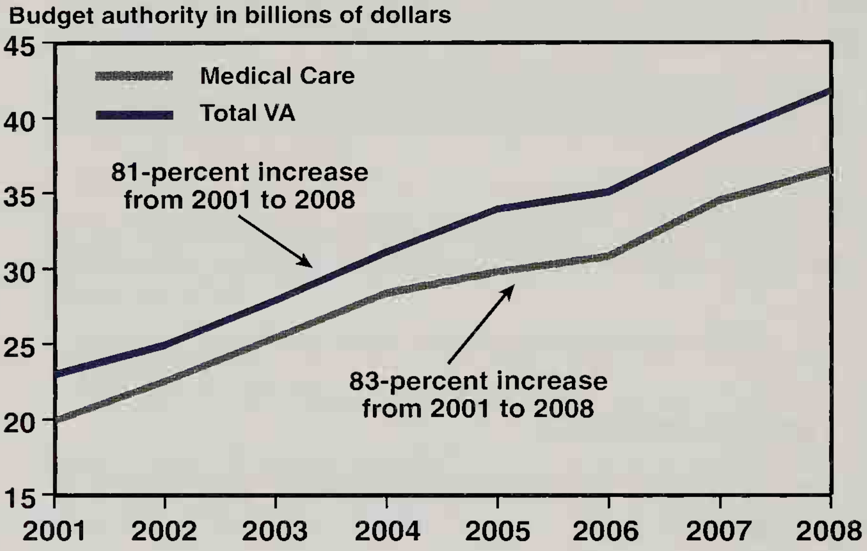
- Meets the growing health care needs of our Nation's veterans;
- Expands the Department's ability to provide mental heath care and prosthetics, especially to servicemembers returning from Iraq and Afghanistan;
- Supports continued restructuring of the medical care system to ensure health care services are available where veterans live;
- Funds the construction of six new veterans' cemeteries in five States to accommodate increased burials primarily of veterans of World War II, and the Korean and Vietnam Wars; and
- Continues the collaboration between the Department of Veterans Affairs and the Department of Defense to better serve veterans and returning Operation Iraqi Freedom and Operation Enduring Freedom servicemembers.

FOCUSING ON THE NATION'S PRIORITIES

Expanding Access to Health Care for Veterans

The President's 2008 Budget for the Department of Veterans Affairs (VA) proposes $36.6 billion (including collections) for medical care—83 percent more than when President Bush took office. VA operates the largest direct health care delivery system in the country, providing care at over 800 locations to over five million veterans. The Department is recognized as a leader in using high standards and technology to improve the quality of health care.

Providing Increases in Health Care and Other Services for Veterans



Today, VA treats a million more veteran patients a year than it did in 2001. Caring for returning combat veterans and veterans with military disabilities, low incomes, and special needs has always been VA's core medical care mission and its highest priority. To continue to prioritize resources for these targeted veterans, the 2008 Budget proposes income-based enrollment fees and higher pharmaceutical copayments for all other veterans, better aligning the VA system with the fees paid by career military retirees under the healthcare system at the Department of Defense (DOD).

VA continues to expand access to non-institutional long-term care, enabling veterans to live and be cared for near or in the comfort of their homes surrounded by family. In addition, veterans from all combat eras are requiring more prosthetics and sensory aids. The Budget proposes $1.3 billion to meet this need. The President's Budget also recognizes the increased need for mental health care services and provides a total investment of $3 billion to afford a full continuum of care for veterans with mental health issues.

The 2008 Budget provides $750 million in medical care construction funds to better align facilities with patient needs, bringing the total investment to $3.7 billion since 2004. This funding will provide care in places where veterans needs are greatest, improving access to both primary and specialty care services.

Improving Benefits for Veterans and their Families

Veterans' disability compensation is a monthly cash benefit paid to veterans for income loss due to service-related disabilities. In 2008, more than three million veterans and beneficiaries will receive approximately $37 billion in tax-free benefits from VA, an 84-percent increase in total payments from 2001. When President Bush took office, the number of disability benefit claims waiting to be processed had soared to over 600,000, resulting in many veterans waiting an average of over 230 days for VA to process their claims. Several statutory requirements have expanded eligibility and increased claim volume over the last six years, further impeding timeliness. The Administration and VA are committed to reducing processing time by continually improving methods and technology. In 2006, the average length of time to process a veteran's disability claim dropped to 177 days. To continue improvement in processing veterans' disability claims, the Budget provides resources to further reduce the processing time to 145 days.

VA honors veterans with a hallowed final resting place at 125 national veterans' cemeteries in 39 States and Puerto Rico. These cemeteries are maintained as national shrines and serve as a lasting tribute to commemorate veterans' sacrifice for this Nation. VA is currently experiencing the largest expansion of the national cemetery system since the Civil War. On Veterans Day 2003, the President signed into law P.L. 108-109, the National Cemetery Expansion Act of 2003, directing the establishment of six new national cemeteries—two in Florida and one each in Alabama, California, Pennsylvania, and South Carolina. The 2008 Budget fully funds the final design and construction of these cemeteries and advances the President's goal of ensuring that most veterans have a final resting place within 75 miles of their homes.

Ensuring a Seamless Transition for Veterans Leaving the Military

President Bush identified increased coordination of VA and DOD programs and systems as one of the 14 key management priorities for his Administration, and these efforts have resulted in more efficient delivery of services and benefits to active and separated servicemembers and their families. In 2008, nearly 263,000 returning servicemembers from Iraq and Afghanistan will receive medical care from VA. VA outreach programs ensure that returning combat veterans know how to access care quickly and with minimal paperwork. VA caseworkers are stationed at major DOD hospitals to make direct contact with those leaving the service. VA and DOD are also working together to identify departing servicemembers who may be at risk for Post Traumatic Stress Disorder and to determine the appropriate care best suited to each veteran.

The Departments have made great progress in sharing electronic data necessary to make eligibility determinations for VA benefits and services for separated servicemembers. Over the past year, the Departments have reduced the time it takes for making DOD deactivation and separation data available to VA hospital and benefits processing centers from 90 days to within 3 days. Increased data sharing between VA and DOD lessens the burden on the veteran for providing requested information, thus reducing the time necessary for VA to complete decisions and for the veteran to receive benefits and services. VA continues to reach out to educate all servicemembers on VA benefits, offering assistance in applying for these benefits prior to separation from active duty. Under this Administration, VA and DOD have proactively partnered to better share valuable resources benefiting veterans and military beneficiaries.

Department of Veterans Affairs

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Medical Care	28,772	29,312	34,202
Medical Collections (non-add)	*1,994*	*2,198*	*2,352*
Total, Medical Care with collections (non-add)	*30,766*	*31,510*	*36,554*
Medical and Prosthetic Research	412	409	411
Information Technology	1,214	1,077	1,859
Construction	923	555	1,078
Veterans Benefits Administration	1,054	1,103	1,198
General Administration	296	335	274
Housing and Other Credit	155	155	156
National Cemetery Administration	150	156	167
Office of Inspector General	69	69	73
Other funds and transactions	−175	—	—
Total, Discretionary budget authority	32,869	33,171	39,418
Total, Discretionary budget authority (with medical collections)	34,863	35,369	41,769
Memorandum: Budget authority from enacted supplementals	*1,206*	—	—
Total, Discretionary outlays	32,313	33,359	38,476
Mandatory Outlays:			
New Proposed Medical Care Receipts	—	—	−355
Benefit Programs:			
Disability Compensation and Pensions	34,680	35,849	41,046
Education Benefits	2,376	2,660	2,620
Vocational Rehabilitation and Employment	573	618	668
Housing	46	67	19
Insurance	1,237	1,278	1,297
Other receipts and transactions	−1,416	−1,504	−481
Total, Mandatory outlays	37,496	38,968	44,814
Total, Outlays	69,809	72,327	83,290
Credit activity			
Direct Loan Disbursements:			
Vendee and Acquired Loans	166	337	530
All other programs	8	7	7
Total, Direct loan disbursements	174	344	537
Guaranteed Loan Disbursements:			
Veterans Home Loans	23,500	28,260	29,104
Total, Guaranteed loan disbursements	23,500	28,260	29,104

CORPS OF ENGINEERS—CIVIL WORKS

Since 2001, the Administration:

- Developed a strategy for improving the performance of the Corps civil works program by establishing five principles to guide future authorization and funding decisions;
- Completed 70 projects, thereby reducing the large backlog of Corps construction work;
- Invested $4.8 billion to restore nationally or regionally significant aquatic ecosystems, with emphasis on the Florida Everglades, the Upper Mississippi River, the Louisiana coastal area, and endangered species recovery efforts in the Columbia and Missouri River basins; and
- Improved compliance and enforcement of wetlands regulation and reduced the average time to process permits by an estimated 10 percent, or 15 days.

The President's 2008 Budget:

- Provides the highest level of funding ever included in any President's budget for Corps water resources projects and programs;
- Improves the performance of the construction program by focusing on the projects that provide the best net economic and environmental returns to the Nation;
- Emphasizes performance of existing projects by focusing on the maintenance of key commercial navigation, flood and storm damage reduction, hydropower, and other facilities; and
- Improves the readiness of the Corps to respond to floods, hurricanes, and other natural disasters by improving training and interagency coordination and by purchasing additional rapid response vehicles.

FOCUSING ON THE NATION'S PRIORITIES

The Corps of Engineers civil works program within the Department of Defense has three main missions: 1) reduce the expected damage caused by floods and storms; 2) facilitate commercial navigation; and 3) restore aquatic ecosystems. The Corps conducts its work on projects in partnership with State and local governments and other non-Federal entities.

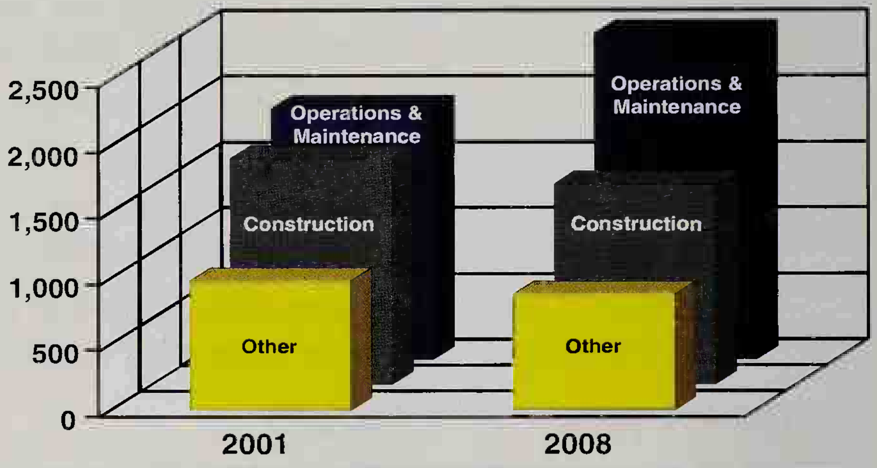
Maintaining Key Infrastructure Needs

The Administration is committed to maintaining key infrastructure owned and operated by the Corps. As these facilities age, operations, maintenance, and rehabilitation costs are increasing. These maintenance investments will improve the reliability of the services provided by this infrastructure.

The Budget includes a nine-percent increase for operation and maintenance (O&M) relative to the 2007 President's Budget, to maintain the effectiveness of these facilities, and to take advantage of technologies that improve their performance and efficiency. Funds will be directed toward maintaining the overall condition of facilities as measured by facilities condition indices.

Administration Prioritizes Corps O&M Funding

(Budget authority in millions of dollars)



O&M as a share of the Corps Budget

2001	2008
41 percent	51 percent

Prioritizing High Performing Projects

The Corps construction program emphasizes projects that will provide the best net economic and environmental returns to the Nation. The Budget allocates funding among projects based on their economic performance, as measured by their total national benefits divided by their total costs, or, for aquatic ecosystem restoration projects, by performance measures that include their environmental significance to the Nation and cost-effectiveness. The Budget focuses resources on high-ranking projects that have begun construction and gives priority to completing ongoing projects as opposed

Priority Construction Projects	2008 Budget Authority (in millions of dollars)	Project Purpose
Sims Bayou, Houston (TX)	24	Flood Damage Reduction
New York/New Jersey Harbor (NY, NJ)	91	Commercial Navigation
Olmsted Locks and Dam, Ohio River (IL, KY)	104	Commercial Navigation
Oakland Harbor (CA)	42	Commercial Navigation
Upper Mississippi River System Environmental Management Program (IL, IA, MN, MO, WI)	23	Commercial Navigation/Mitigation
Everglades/South Florida Ecosystem Restoration (FL)	162	Aquatic Ecosystem Restoration

to starting new ones. It also funds studies of those future projects that would potentially yield high net economic and environmental returns.

The Budget proposes to authorize the Corps to issue multi-year contracts in lieu of its current continuing contract authority. This would subject Corps contracts to conditions and oversight similar to those that apply to other Federal contracting agencies. It would increase the ability of the Executive Branch and the Congress to establish priorities by reducing the high out-year funding commitments that result from the existing contract authority.

Promoting User Financing of the Inland Waterways

The commercial barges that move cargo on the inland waterways pay a beneficiary-based excise tax of 20 cents per gallon on diesel fuel. The existing tax covers only about 10 percent of the total costs that the Corps incurs to make barge transportation possible on the inland waterway system. The Administration is developing and will propose legislation to require payment of a user fee designed to promote the efficient use of the Nation's overall resources and require the commercial interests that benefit from Corps spending on the inland waterways to carry more of the costs, thereby improving future Federal authorizing and funding decisions.

Increasing Preparedness

The Corps plays a central role in responding to flood, hurricane, and other natural disasters. Although disasters are often unpredictable, the Corps must be ably prepared to respond to their occurrence. For this reason, the Administration proposes to substantially increase the emergency preparedness budget to $40 million in 2008. This increased funding will enable the Corps to train more of its staff to be able to effectively respond, improve needed inter-agency coordination to facilitate communication and response with State, local, and other Federal agencies, maintain larger emergency supply inventories, and purchase additional rapid response vehicles.

Addressing Aquatic Ecosystem Restoration Needs

The Budget's support for aquatic ecosystem restoration activities includes providing funding for three significant new initiatives:

Missouri River Fish and Wildlife Recovery. As part of its efforts to operate six large dams on the Missouri River to meet multiple purposes, the Corps is working to restore the habitat of an endangered fish called the pallid sturgeon. In 2008, it will begin construction work to modify Intake Dam on the Yellowstone River, a project that is potentially very important to the prospects for the survival of this species.

Everglades / South Florida. Building upon the success of the Kissimmee River aquatic ecosystem restoration effort, the Corps will conduct a study to reevaluate the Federal interest in expanding the area to be restored in order to reduce peak flows to Lake Okeechobee and achieve additional benefits for the ecosystem.

Chicago Sanitary and Ship Canal Dispersal Barrier. To protect the ecosystem of the Great Lakes from Asian carp, which have had a harmful impact on the ecology of the Illinois Waterway, and from other invasive species, the Corps will improve the existing electrical barrier on the Illinois Waterway and continue to construct a second barrier.

Safeguarding the Nation's Waters and Wetlands through Improved Regulation

The Corps regulatory program helps to protect the Nation's waters and wetlands. The program issues over 90,000 permits per year to developers, on the condition that the developer takes the steps needed to avoid, minimize, or mitigate potential environmental damage. In the past five years, the Administration has increased funding by 19 percent for this program to improve performance. The Corps is issuing more permits and reducing the time it takes to secure a permit, while increasing on-site inspections to ensure compliance by recipients with the terms of their permits. The net effect is a more efficient permitting process and less costly development, while protecting important aquatic resources.

Army Corps of Engineers—Civil Works

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Construction[1]	2,348	1,891	1,523
Operation and Maintenance[1]	1,980	1,975	2,471
Flood Control, Mississippi River and Tributaries	396	291	260
Flood Control and Coastal Emergencies	—	—	40
Investigations	164	134	90
Regulatory Program	158	152	180
Formerly Utilized Sites Remedial Action Program	139	130	130
Expenses	152	142	177
Office of Assistant Secretary (Civil Works)	4	4	—
Total, Discretionary budget authority	5,341	4,719	4,871
Memorandum:			
Budget authority from enacted supplementals	*6,585*	—	—
Additional funding requirements	—	—[2]	—
Total, Discretionary outlays	7,184	7,584	6,486
Mandatory Outlays:			
Existing law	–220	–6	22
Legislative proposal, Recreation Program User Fee	—	—	–7
Total, Mandatory outlays	–220	–6	15
Total, Outlays	6,964	7,578	6,501

[1] The 2008 Budget reflects a transfer of certain activities from the construction program to the operation and maintenance program.

[2] Reflects the proposed reallocation of $1.0 billion within the Flood Control and Coastal Emergencies account, as well as the proposed reallocation of $0.3 billion from the Construction account to the Flood Control and Coastal Emergencies account.

ENVIRONMENTAL PROTECTION AGENCY

Since 2001, the Administration:

- Reduced emissions of sulfur dioxide and nitrogen oxides—pollutants that contribute to particulate matter and ozone—by 13 percent and 8 percent, respectively, while the economy grew 12 percent;
- Proposed Clear Skies legislation and took regulatory action to control air emissions from power plants. When fully implemented, these rules will reduce nitrogen oxides and sulfur dioxide emissions in the eastern United States by 60 percent and 70 percent, respectively, and will reduce mercury emissions nationwide by nearly 70 percent;
- Helped more than 8,500 drinking water utilities complete risk assessments and update emergency response plans, improving emergency preparedness and response for manmade and naturally occurring events affecting the water sector;
- Supported business investment and community revitalization efforts through historic Brownfields legislation, more than doubling the properties assessed during the prior Administration and making over 1,300 acres ready for reuse; and
- Carried out climate change programs, such as Methane to Markets, Climate Leaders, and SmartWay that work to reduce greenhouse gases.

The President's 2008 Budget:

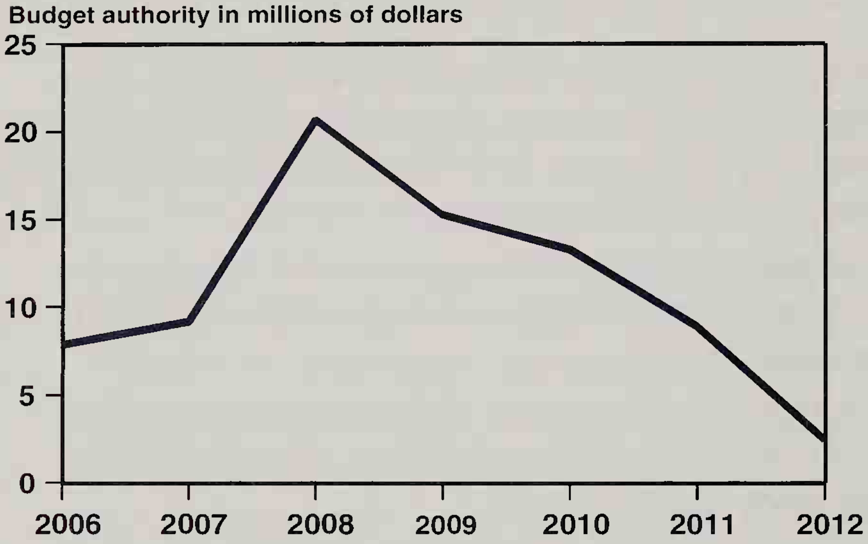
- Provides $22 million toward completion of the Water Security Initiative, a critical infrastructure protection pilot program for the water sector;
- Supports the continued implementation of clean diesel rules, which when fully implemented will reduce diesel vehicle pollution by more than 90 percent nationwide;
- Provides $162 million to the Brownfields program to assess 1,000 more properties and support cleanup in 63 more communities;
- Provides $35 million to clean up contaminated sediments at three to five sites through the Great Lakes Legacy Act;
- Provides $29 million to restore water quality in the Chesapeake Bay;
- Helps communities finance their water infrastructure and improve operations through expanded bonding authority; and
- Provides $5 million as part of a $52 million multi-agency effort to advance clean technology investment through the Asia-Pacific Partnership on Clean Development and Climate.

FOCUSING ON THE NATION'S PRIORITIES

Securing Critical Water Infrastructure

The swift adoption of surveillance systems by drinking water utilities in high threat cities is a critical component of water infrastructure protection. In 2008, the Environmental Protection Agency (EPA) will complete deployment of pilot systems under its Water Security Initiative. EPA is focused on accelerating implementation by sharing its findings with water utilities even as its pilot program is underway.

Funding Needed to Finish Water Security Pilot Systems



By the end of 2007, based on lessons learned from the first pilot, EPA will issue interim guidance on design and consequence management that will enable water utilities to deploy and test contamination warning systems in their own communities. After start-up of the remaining pilot systems in 2008, the program will ramp down as EPA shifts its focus to evaluation of the pilots. EPA will continue support of each pilot for three years, after which the host cities assume maintenance of these systems and over time bring them to full-scale operation.

As the Federal lead for coordinating protection of water infrastructure, EPA will continue to engage with the water sector on several risk reduction activities including best security practices, emergency response planning, and water security training. EPA's National Homeland Security Research Center will help ensure that water utilities and emergency responders can react rapidly and effectively to intentional contamination incidents.

Partnering for Environmental Stewardship

Through collaborative work with States, Tribes, and other non-Federal partners, EPA optimizes its resources to secure environmental benefits.

Air quality continues to be a concern in many parts of the Nation and a major contributor to this problem is from the combustion of fossil fuels. The Administration recognizes the need to help States address these air pollution issues and has pursued policies to address that need. The Administration proposed the Clear Skies legislation, which when fully implemented would reduce emissions of nitrogen oxides (NO_x) and sulfur dioxide (SO_2)—both products of fossil fuel combustion and precursors to ozone and particulate matter pollution—by nearly 70 percent. To ensure States had the means to meet air quality standards, EPA issued a series of rules that targeted combustion sources such as engines and power plants. For example, the Highway Diesel rule will make new highway diesel engines as much as 95 percent cleaner than current models starting in 2007. The Nonroad Diesel rule reduces sulfur in off-highway diesel fuel by more than 99 percent by 2010 and phases in new controls on nonroad diesel engine emissions starting in 2008 to reduce emissions by over 90 percent. The Clean Air Interstate rule when fully implemented is projected to reduce SO_2 emissions from power plants in the covered States by over 70 percent and NO_x emissions by over 60 percent from 2003 levels.

EPA also continues to work with businesses, organizations, governments, and consumers to reduce emissions of greenhouse gases through increased use of energy efficient technologies and improved management practices. For example, in 2008 the Energy Star program will continue to help consumers and companies make informed energy efficient choices through product labeling efforts and other tools. EPA's suite of domestic methane programs will continue to help partners identify and adopt cost-effective technologies and methods for the recovery and use of methane. The agency will maintain other successful programs as well, such as Climate Leaders and the SmartWay Transport program. These climate programs utilize effective voluntary partnerships to promote emission reductions in the near term, which helps meet the Administration's goal of reducing greenhouse gas intensity by 18 percent by 2012.

In addition to these domestic efforts, EPA works internationally to encourage greenhouse gas reductions. The agency actively participates in six of the eight Task Forces of the Asia-Pacific Partnership on Clean Development and Climate. This six-nation Partnership works to develop strategies for improving energy security, reducing pollution, and addressing the long-term challenge of climate change. Also, building on the agency's successful domestic methane programs, EPA leads the U.S. efforts in the international Methane to Markets Partnership. Member countries work in collaboration with the private sector, multilateral development banks, and other governmental and non-governmental organizations to advance the recovery and use of methane—a potent greenhouse gas—as a clean energy source.

Brownfields Grants Transform Rainier Valley, Washington

In Seattle, Washington, the Courtland Place at Rainier Court is now a 208-unit affordable senior housing development with ground floor retail businesses. For over 30 years, abandoned warehouses and junkyards were both a visual blight and a health hazard to the community. A multitude of partners—King County; the City of Seattle; Washington Department of Community, Trade, and Economic Development; Washington Department of Ecology; South East Effective Development; Senior Housing Assistance Group; and EPA—combined resources and expertise to make the project a success. More than $1 million in EPA Brownfields grants for assessment and cleanup activities helped leverage $17 million in public and private funds. This project brought hope to the economically distressed Rainier Valley area of Seattle by creating jobs, affordable housing opportunities, and new commercial space.

Brownfields grants encourage business investment and jobs by returning contaminated sites and abandoned properties to productive use. In 2008, the funds requested will enable assessment of 1,000 more brownfields properties, support cleanup in 63 more communities, and address petroleum contamination found on brownfields sites in more than 40 communities.

In 2007, EPA will finalize a rule that provides financial incentives to States to implement fee programs for their National Pollutant Discharge Elimination System activities. This rule would provide additional grant money to States that charge fees to permittees, expanding the total resources available for water quality in that State.

Improving the Nation's Water Resources and Supplies

Through the Great Lakes Legacy Act, EPA works with non-Federal partners to clean up contaminated sediment sites in the Great Lakes region. For decades, industrial sources contributed substantial amounts of harmful pollutants to the Great Lakes. These contaminants may subsequently enter the food chain where they can cause adverse effects to human health and the environment. The President's Budget provides $35 million to continue this important work.

Through a unique voluntary partnership, the Chesapeake Bay Program is working to restore water quality in the Nation's largest estuary. In order to meet water quality standards, EPA helped determine appropriate pollutant cap loads and proportionately allocate those loads among the nine major tributaries. Each of the partners is now developing and implementing tributary strategies. The President's Budget provides $29 million to support EPA's efforts in this program.

The Budget provides $842 million in new capitalization for the Drinking Water State Revolving Fund. States use their capitalization grants, along with matching funds, to make loans to localities. The funds "revolve" as States use loan repayments to make new loans. Included in the President's Budget is a proposal to exempt private activity bonds (PABs) used to finance drinking water and wastewater infrastructure from the overall PAB cap. PABs are tax-exempt bonds issued by a State or local government, the proceeds of which are used by another entity for a public purpose. This exemption will ensure all States and communities have access to PABs to help finance their water infrastructure needs. The proposal also will facilitate public-private partnerships and require States or municipalities that use these bonds to implement—if they have not already—full-cost pricing for services, helping drinking water and wastewater systems become self-sustaining.

States will begin early implementation of the new Long Term 2 Enhanced Surface Water Treatment rule in 2008. The rule supplements existing drinking water regulations with additional *cryptosporidium* monitoring and treatment requirements. The rule uses an innovative risk-based monitoring approach to target the most vulnerable systems and assign treatment requirements based on relative risk levels. In addition, systems have flexibility in meeting treatment requirements by choosing from a "microbial toolbox," which contains a range of treatment and management strategies.

Environmental Protection Agency

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Operating Program	4,273	4,319	4,208
Clean Water State Revolving Fund	831	688	688
Cancellation of unobligated balances	—	—	–5
Drinking Water State Revolving Fund	837	842	842
Brownfields Assessment and Cleaunup	89	89	89
Clean Diesel Grants	7	28	35
Targeted Water Infrastructure	274	241	26
Requested (non-add)	*84*	*41*	*26*
Unrequested (non-add)	*190*	*200*	—
Superfund	1,235	1,220	1,245
Leaking Underground Storage Tanks	72	69	73
Total, Discretionary budget authority	7,619	7,494	7,200
Memorandum: Budget authority from enacted supplementals	*21*	—	—
Total, Discretionary outlays	8,411	8,117	7,924
Total, Mandatory outlays	–90	–79	–146
Total, Outlays	8,321	8,038	7,778

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Since 2001, the Administration:

- Announced a bold, new vision for human and robotic exploration of the Moon, Mars, and beyond;
- Began development of a new human spaceflight vehicle, the Orion, and a new rocket, the Ares I, to extend human exploration of the solar system;
- Continued assembly of the International Space Station, a multinational research laboratory in orbit around the Earth;
- Partnered with the private sector to develop commercial transportation to the International Space Station; and
- Successfully initiated 30 robotic spacecraft missions to explore the solar system and universe and to improve understanding of our own planet.

The President's 2008 Budget:

- Prioritizes development of the Orion and Ares I exploration vehicles;
- Provides for the completion of the International Space Station;
- Continues flying the Space Shuttle safely to complete the Space Station, while keeping it on the path to retirement by 2010, ultimately saving taxpayers nearly $4 billion per year that will be applied to bolder exploration missions;
- Supports a strong program of robotic exploration of the Moon to increase understanding of our nearest neighbor in space and to prepare for future human expeditions;
- Sustains a robust science program to expand understanding of the Earth, the solar system, and the universe; and
- Focuses the Aeronautics program on long-term research of broad benefit to the Nation.

FOCUSING ON THE NATION'S PRIORITIES

The President's Vision for Space Exploration

Refocusing the National Aeronautics and Space Administration (NASA) on ambitious and inspiring goals, President Bush outlined a bold, new vision for human and robotic space exploration on January 14, 2004. As President Bush explained, "We've undertaken space travel because the desire to explore and understand is part of our character. And that quest has brought tangible benefits that improve our lives in countless ways." The United States will extend human presence across the solar system, starting with a human return to the Moon by the year 2020, in preparation for human exploration of Mars and other destinations.

Lockheed Martin Corp.

Orion and Lunar Lander orbiting the Moon

The 2008 Budget includes $951 million for design and development of a new human spaceflight vehicle, the Orion, which will be safer and more reliable than the Space Shuttle. Orion will allow astronauts to land anywhere on the Moon, will support a lunar outpost, and will eventually support human missions to Mars. The Budget also includes $1.2 billion for development of a new kind of rocket to launch Orion. Called the Ares I, this new rocket will incorporate components of the Space Shuttle. This will allow NASA to use tried and tested components, benefit from an experienced workforce, and smoothly transition many of its operations when the Space Shuttle is retired by 2010. The Ares I will require far less launch preparation than the Space Shuttle, leading to savings in operating costs that can be applied to future systems and bolder missions.

NASA's exploration of space includes international and commercial participation. NASA continues to assemble the International Space Station, a laboratory orbiting the Earth and involving 16 nations. The 2008 Budget provides $436 million over three years to award successful demonstration of new, privately developed vehicles capable of transporting cargo and crew to the Space Station. Once the Space Shuttle is retired, commercial services will be NASA's preferred means of supplying the Space Station.

NASA's human exploration efforts are complemented by a robust robotic program. The Lunar Reconnaissance Orbiter is scheduled to launch in the fall of 2008 to map the surface of the Moon and search for future landing sites. The Budget provides $355 million over five years for a new lunar science program to maximize scientific gain from robotic exploration of the Moon. NASA's recent successful robotic investigations of Mars and Saturn will be followed by missions that will explore some of the least-known areas of the solar system: Mercury, the asteroids, and Pluto. The Mars Science Laboratory will launch in 2009 to sharpen understanding of the red planet; future spacecraft will conduct research and test technologies to support future human exploration of the planet.

Continued Leadership in Science and Aeronautics

NASA will also continue to revolutionize astronomy. NASA will service and upgrade the Hubble Space Telescope, and will build new telescopes such as Kepler to find planets around other stars and the James Webb Space Telescope to peer deep into the history of the universe. Furthermore, NASA's Beyond Einstein program will answer basic questions about the fundamental physics of the universe and its origins. At the same time, NASA will play a major part in Earth science, through such programs as the interagency Climate Change Science Program and the international initiative on the Global Earth Observing System of Systems. NASA also continues developing the Global Precipitation Measurement satellite system to obtain a comprehensive understanding of the Earth's rainfall, improving the prediction and tracking of hurricanes and other major weather events. The agency will also develop new space probes to study the Sun's influence on Earth and the space environment.

Guided by the new National Aeronautics Research and Development Policy, NASA will pursue long-term aeronautics research of broad benefit to the Nation, concentrating on fundamental aeronautics, aviation safety, and the needs of the Next Generation Air Transportation System. The 2008 Budget includes $396 million over five years in grants for aeronautics research to university and industry labs, expanding the participation of the best researchers around the country.

National Aeronautics and Space Administration

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Science, Aeronautics, and Exploration	9,721	9,969	10,483
Exploration Capabilities	6,520	6,194	6,792
Office of Inspector General	32	32	35
Total, Discretionary budget authority	16,273	16,195	17,310
Memorandum: Budget authority from enacted supplementals	*385*	—	—
Total, Discretionary outlays	15,213	16,156	17,264
Total, Mandatory outlays	–88	–13	–14
Total, Outlays	15,125	16,143	17,250

NATIONAL SCIENCE FOUNDATION

Since 2001, the Administration:

- Advanced all fields of science, engineering, and mathematics by funding 59,000 grants at the National Science Foundation through a competitive, merit-based process;
- Strengthened the foundations of the science and engineering workforce by directly supporting 69,000 graduate students and 28,000 undergraduate students;
- Supported particle physics, supercomputing, and research on earthquakes and the atmosphere by fully funding the construction of four major research facilities; and
- Enabled breakthroughs with significant scientific and economic impact by committing to doubling the funding over 10 years for key basic research agencies, including the National Science Foundation, through the President's American Competitiveness Initiative.

The President's 2008 Budget:

- Dramatically improves the National Science Foundation's efforts to build and sustain U.S. global leadership in the physical sciences, engineering, computer science, and many other fields of science and engineering;
- Provides enhanced infrastructure and tools to strengthen research capabilities in physics, astronomy, the oceans, and environmental research;
- Supports the U.S. role in the International Polar Year by providing $59 million for polar observations, research, and analysis, coordinated across other countries and agencies, to improve understanding of the key roles of the polar regions in the earth's dynamics, and to explore new frontiers of Arctic and Antarctic science; and
- Helps attract more of the most promising American students into graduate level science and engineering by funding over 200 additional graduate fellowships in 2008.

FOCUSING ON THE NATION'S PRIORITIES

Doubling Research through the American Competitiveness Initiative

As part of the President's American Competitiveness Initiative (ACI), the 2008 Budget provides an increase of 6.8 percent over the 2007 Budget for the National Science Foundation (NSF), continuing a 10-year commitment to double critical basic research investments across key agencies in the physical sciences, engineering, and related fields. NSF research builds the foundations for innovative technologies that drive economic growth and enhance quality of life. A broad portfolio of basic research—from the fields at the heart of ACI, such as physics, chemistry, mathematics, engineering, and computer science, to other fields, such as the geological, biological, behavioral, and social sciences--will energize science broadly and sustain the productivity of the Nation's science and engineering enterprise and keep America at the forefront of world discovery and innovation. Past NSF research has contributed to the development of the Internet and Internet search engines, fiber-optics, color plasma displays, magnetic resonance imaging, and other advances that now help each of us in our daily lives.

Working with other agencies as part of the National Nanotechnology Initiative, NSF's nanotechnology research will continue to advance fundamental understanding of materials at the subatomic, atomic, and molecular levels and will enable the development of capabilities to design, manipulate, and construct revolutionary devices and materials with unprecedented properties. The Budget provides $390 million in 2008 for NSF's nanotechnology research investments, an increase of 4.5 percent from the level proposed in 2007, including funding for a new NSF center to address environmental, health, and safety research needs for nano-materials.

Georgia Tech; Gary Meek

Georgia Tech Professor Zhong Lin Wang holds a nanowire array that can produce electrical energy from the slightest motions.

NSF has significant roles in the Networking and Information Technology Research and Development (NITRD) program. The Budget provides $994 million of NITRD funding, an increase of 10 percent from the level proposed in 2007. This investment will support fundamental research in information, computer, and communications sciences, laying the groundwork for next-generation technologies. NSF programs will also support access to cutting-edge computing and networking infrastructure essential for America's scientists, engineers, and students to remain at the forefront of discovery. Funding for both nanotechnology and information technology research supports education and training for the next generation of researchers and the science, engineering, and technology workforce.

The Administration's Ocean Research Priorities Plan highlights the importance of greater understanding of ocean processes and ecosystems. The 2008 Budget provides NSF with $17 million to address near-term ocean research priorities, in addition to other ongoing ocean research activities.

The President's Budget supports the U.S. role in the International Polar Year (IPY) by providing over $59 million for related research and education activities. NSF will lead the U.S. research community in working with scientists supported by other agencies and countries to advance understanding of the Earth's poles. Major areas of research will include Arctic environmental change, the influence of polar ice sheets on global phenomena, and organisms that live in the cold and dark. NSF's IPY research will include a focus on education and outreach to motivate future generations of scientists, engineers, and educators.

Through its new strategic plan, NSF will provide increased emphasis in its goals of discovery, learning, research infrastructure, and stewardship. These priorities, along with NSF's investments supporting basic research across all fields, are central to advancing the vitality of the U.S. research and education enterprise. The Budget enables NSF to work toward these goals with fiscal discipline, maintaining overhead expenses at less than six percent of its total budget.

Providing Facilities and Infrastructure for Science and Engineering

The 2008 Budget supports research facilities, infrastructure, and instrumentation critical to scientists and engineers. The Budget supports the development of state-of-the-art facilities and equipment that substantially enhances research efforts throughout a wide range of fields, including astronomy and research on the oceans and the environment.

Computing and advanced networking tools that broadly benefit the Nation's entire science and engineering community, collectively known as "cyberinfrastructure," have become essential to advancing the frontiers of knowledge through science and engineering. The Budget provides $644 million for NSF's targeted investments in these tools.

The 2008 Budget proposes a major upgrade for the Laser Interferometer Gravitational Wave Observatory. Being able to detect gravitational waves—first predicted in Einstein's theory of general relativity—would advance understanding of fundamental physics and enable a new window on the universe through gravitational wave astronomy. This investment will dramatically expand the ability to detect gravitational waves, which also significantly increases the potential for discovering completely new phenomena of physics.

NSF's Major Research Instrumentation program provides investments in a diverse portfolio of mid-size tools, such as nanofabrication tools, biological imaging instruments, environmental monitoring stations, very high wattage lasers, and ocean observatories. The Budget provides $110 million for these and other instrumentation investments in 2008. In addition to enabling and strengthening the research that NSF funds, the development of these tools advances the state of the art for instrumentation and promotes partnerships between academic researchers and private sector instrument developers.

Enhancing Science and Engineering Education

The President's Budget supports NSF's efforts to promote the development of a diverse and well-prepared workforce of scientists, engineers, and educators and a well-informed citizenry. NSF makes strategic investments in K–12, undergraduate, graduate, and postdoctoral education. Consistent with the work of the Administration's Academic Competitiveness Council (ACC), NSF and other agencies that fund science and math education are redoubling their efforts to demonstrate results and improve coordination.

The 2008 Budget will help strengthen the preparation of American students for the science and engineering workforce, with a focus on broadening participation in those fields. The Budget ensures that NSF's Math and Science Partnerships program will continue, with $29 million of its $46 million budget available for new awards, in recognition of the program's focus on evaluation and past successes identified by the ACC.

The Budget funds graduate fellowships and traineeships for approximately 5,300 graduate students across the country. NSF funding for basic research at American academic institutions also plays a central role in supporting the education of future American scientists and engineers.

National Science Foundation

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Research and Related Activities	4,340	4,333	5,132
Education and Human Resources	797	797	751
Major Research Equipment and Facilities Construction	191	234	245
Agency Operations and Award Management	247	247	286
National Science Board	4	4	4
Inspector General	11	11	12
Total, Discretionary budget authority	5,590	5,626	6,430
Total, Discretionary outlays	5,427	5,728	5,901
Mandatory Outlays:			
H–1B Fee Programs	76	103	102
All other	39	29	23
Total, Mandatory outlays	115	132	125
Total, Outlays	5,542	5,860	6,026

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SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Provided record numbers and volumes of Government-guaranteed small-business loans ($105 billion through 2006) and improved customer service, while reducing the per-unit cost of loans from $3,418 in 2001 to $461 in 2006;
- Provided $13.7 billion of direct disaster loans to over 290,000 businesses, homeowners, and renters through 2006;
- Delivered tax relief averaging $3,641 to 25 million small businesses in 2006; and
- Offered trade promotion services that help small businesses start exporting their products to destinations around the world.

The President's 2008 Budget:

- Provides $28 billion in Government-backed small business loans for 2008;
- Helps small businesses get needed capital by eliminating the upfront borrower fee under the Section 504 Certified Development Company program;
- Proposes to make the Microloan program self-financing; and
- Continues operational improvements to accelerate the delivery of disaster loans, including deployment of an Internet-based application process for small business.

FOCUSING ON THE NATION'S PRIORITIES

Small businesses provide more than half of the Nation's private sector jobs. The Small Business Administration's (SBA's) mission is to promote small business development and entrepreneurship through business financing and technical assistance programs. SBA also works with other Federal agencies to reduce regulatory and paperwork burdens on small businesses.

In addition to SBA's programs, the Administration has taken important steps to assist small businesses by reducing taxes, encouraging investment, and removing regulatory and other obstacles to growth. As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, 25 million small businesses and their owners received tax relief averaging $3,641 in 2006. The Administration also supports legislation enabling creation of Association Health Plans and other reforms that would reduce health care costs for small businesses and their employees.

Helping Small Businesses Grow

In order to meet the demand of the growing small business sector, the Budget supports $28 billion in small business lending. SBA's 7(a) program will support $17.5 billion in guaranteed loans for working capital and other business expenses. With the implementation of zero subsidy in 2005, the program has increased the number of borrowers 25 percent while no longer experiencing shut downs due to funding shortages. SBA's Section 504 loan program will support an additional $7.5 billion in fixed-rate guaranteed loans for fixed asset purchases. SBA will also supplement the capital of Small Business Investment Companies with $3 billion in guaranteed long-term loans for venture capital investments in small businesses.

To ensure that entrepreneurs have the skills and knowledge to operate their businesses, SBA and its 1,600 partners in the Small Business Development Center, Women's Business Center, and SCORE (formerly the Service Corps Of Retired Executives) programs will provide technical assistance, including training, counseling, mentoring, and information services, to more than four million existing and potential entrepreneurs in 2008. The Budget requests $104 million for technical assistance programs in 2008.

The Budget also includes proposals to strengthen and ensure stability in three business loan programs. These initiatives include stabilizing SBA's Secondary Market program that enhances liquidity and financing terms by facilitating a secondary market for SBA guaranteed loans. The Budget proposes fee authority on new secondary market securities, that would enable the program to operate without cost to the taxpayer or require structural changes to the program. The 2008 Budget also proposes to eliminate the upfront borrower fee on the Section 504 Certified Development Company program. Borrowers will pay one of the lowest fee rates since 1996 for this program. The Administration has supported record numbers and volumes of loans to small, minority, and women-owned businesses through the 7(a) program; given the success of this program, the Administration is proposing reforms to enable the Microloan program to operate at zero subsidy.

Improving Disaster Response

The 2005 Gulf Coast hurricanes resulted in the largest disaster response in SBA's 53 year history. As a result of Hurricanes Katrina, Rita, and Wilma, SBA processed over 420,000 loan applications and approved $10.8 billion in disaster loans, nearly three times the level for the second largest disaster, the California Northridge earthquake of 1994.

SBA's disaster response was slower than SBA's performance goals as a result of the catastrophic nature of this event, constraints caused by the agency's new computer system, and the immediate need for a substantial increase in temporary staff and facilities. While SBA has typically responded quickly to disaster victims' needs, the unprecedented 2005 hurricanes provided insight into operational challenges. Based on the lessons learned from this experience, the agency is implementing reforms that will significantly improve its future response to disasters, including a computer upgrade that has been tested to support a four-fold increase in concurrent user capacity.

U.S. Small Business Administration
SBA DISASTER ASSISTANCE
Loans for Homeowners, Renters and Businesses of All Sizes

FEMA; Jocelyn Augustino
An SBA customer service representative goes over information from local residents at the Disaster Recovery Center at the Habitat for Humanity Home Center.

In September 2006, SBA initiated the Accelerated Disaster Response Initiative to identify and implement process improvements to quicken the delivery of financial assistance. As a result, SBA reengineered its disaster loan processing operation to improve customer service and the disbursement of disaster loan funds. Based on customer feedback, the agency rolled out an integrated team model where customers are assigned to a case manager so they have a single point of contact that is accountable to help them through the complete loan review and disbursal process rather than being referred sequentially to different agency functional staff. SBA has also implemented numerous productivity metrics to track the status of applications and performance of employees. The metrics are monitored to identify areas that require management intervention. For example, loan modifications that averaged 2.5 months for completion in July 2006, now average just 2 weeks for completion, and continue to decline.

SBA has developed new models that can rapidly forecast loan volume and resource requirements (financial, human capital, and logistical) to better position the agency to respond to large scale disasters when they strike. Moreover, SBA is nearing completion of a plan to leverage its field network to improve local coordination and communication with citizens, lending institutions, and local authorities.

By 2008, SBA expects to offer an Internet-based electronic loan application process to assist businesses, homeowners, and renters applying for disaster loans. This complements the investment SBA made in the infrastructure of its disaster computer system.

Expanding Small Business Procurement Opportunities

Federal agencies procure more than $300 billion in goods and services from the private sector annually. The Small Business Act sets a goal that at least 23 percent of the purchases are to be made from small businesses in order to ensure that small businesses have an opportunity to compete in the Federal marketplace.

SBA has undertaken several initiatives to create transparency in small business procurement and increase accountability for Federal agencies. SBA recently issued a regulation that revises small business certification requirements to ensure that contracts and procurement preferences are effectively provided to small and growing companies. Size recertification is now required every five years to allow for firm growth and ensure that larger companies graduate from the procurement preference programs, as intended. SBA is also working with other Federal agencies to reconcile and correct procurement data discrepancies to ensure the integrity of small business procurement data. SBA also will take actions to strengthen the President's initiative on contract unbundling to provide more opportunities for small business contracts.

During 2007 and 2008, SBA is planning to develop an electronic Procurement Center Representative (e-PCR) system that, when fully implemented, will allow SBA to more effectively analyze individual Federal procurements and give agencies greater ability to identify small businesses that are capable of providing requested goods and services. SBA is also launching in 2007 a small business procurement scorecard modeled after the President's Management Agenda. The scorecard will more effectively track and evaluate agencies' achievement of small business procurement goals, by establishing criteria for agency success and "scoring" agencies against those criteria.

Small Business Administration

(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Salaries and Expenses	306	305	310
Business Loans Administration	121	121	135
Disaster Loans	—	—	—
Office of the Inspector General	14	14	15
Surety Bond Guarantees Revolving Fund	3	3	3
Unrequested projects	90		
Total, Discretionary budget authority	534	443	463
Memorandum: Budget authority from enacted supplementals	*1,700*	—	—
Total, Discretionary outlays	1,472	780	748
Total, Mandatory outlays	–567	–105	–23
Total, Outlays	905	675	725
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans	3,667	1,110	693
Direct Business Loans	16	16	18
Total, Direct loan disbursements	3,683	1,126	711
Guaranteed Loan Disbursements:			
Guaranteed Business Loans	18,860	19,900	21,900
Total, Guaranteed loan disbursements	18,860	19,900	21,900

SOCIAL SECURITY ADMINISTRATION

Since 2001, the Administration:

- Improved productivity by 13.1 percent, enabling the agency to provide more accurate and a wider variety of services with fewer resources than would otherwise be required;
- Increased work opportunities for individuals with disabilities;
- Began to implement a new disability determination process that will increase accuracy and consistency, shorten decision times, and pay benefits to eligible beneficiaries much earlier in the process; and
- Launched new initiatives to help employers identify unauthorized workers.

The President's 2008 Budget:

- Supports the President's previously submitted framework for Social Security reform that strengthens the safety net for future generations, protects those who depend on Social Security the most, and offers workers the chance to experience the opportunity of ownership through voluntary personal retirement accounts;
- Protects American taxpayers—preventing nearly $2 billion of waste, fraud, and abuse by making sure benefits are provided to the right beneficiaries through increased program integrity efforts;
- Highlights the escalating and persistent fiscal problems facing the Disability Insurance program; and
- Assumes operational productivity will increase by two percent in 2008 while maintaining service to the public.

FOCUSING ON THE NATION'S PRIORITIES

Strengthening Social Security

As the President emphasized on the program's anniversary: "For 70 years, Social Security has been a vital program and helped millions of America's seniors in retirement. The Social Security system is sound for today's seniors, but there is a hole in the safety net for younger workers. On this 70th anniversary, we renew our commitment to save and strengthen Social Security for our children and grandchildren, and keep the promise of Social Security for future generations."

Social Security needs to be strengthened so that younger workers paying into the system can continue to rely on Social Security. The program also needs to be reformed so that future scheduled benefit promises are aligned with the program's available resources. Today, those promises in present value terms exceed the expected resources that will be available to pay for them under current law over the indefinite future by $13.4 trillion, according to the latest estimates by the Social Security actuaries.

Social Security today operates on what is known as a "pay-as-you-go" basis, in which current worker payroll taxes are used immediately to pay for the benefits of current retirees and other beneficiaries. In 1950, there were about 16 workers for every retiree. Today, there are just more than three workers for every beneficiary, and by the time today's 20-year-olds retire, that number will fall to two workers for every beneficiary. Furthermore, Social Security is paying greater benefits for longer periods of time as life expectancy increases, and the imminent retirement of the baby boom generation will result in added strain on the system. By 2017, the Social Security system will collect less in taxes than it pays in benefits and will shift into a permanent cash deficit that will grow every year. In 2040, Social Security will exhaust its Trust Fund assets and lack the resources to pay the benefits that have been promised and that seniors will be expecting. If Social Security's finances are left unresolved, future changes would require today's young workers to see their benefits sharply cut, their payroll taxes raised, or both.

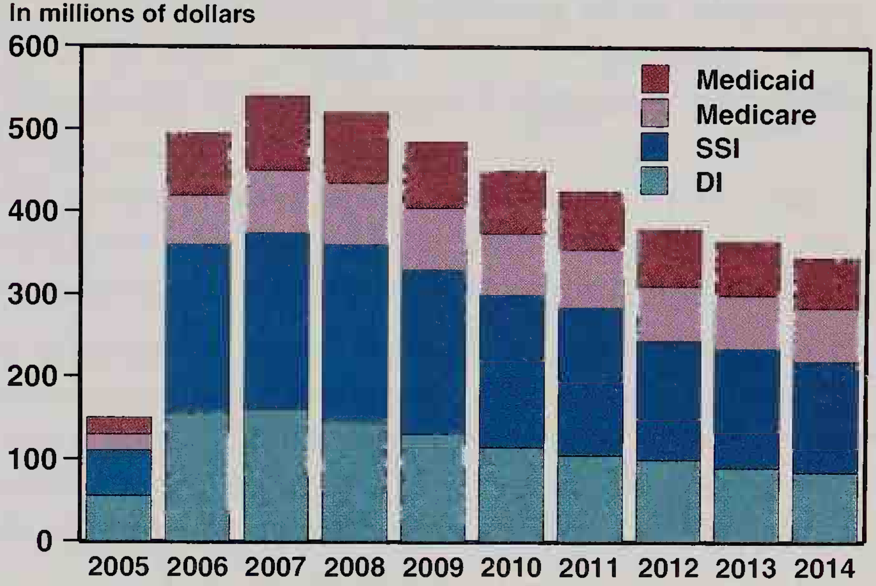
The President is committed to strengthening the Social Security system and has reiterated his commitment to a bipartisan reform process in which participants are encouraged to bring different options for strengthening Social Security to the table. The Budget supports the proposals the President has put forward to date. Under these proposals, Social Security would include voluntary personal accounts funded by a portion of the worker's Social Security payroll taxes. The Budget includes the estimated impact from the creation of such personal accounts. In 2012, the first year of the accounts, contributions will be capped at four percent of Social Security taxable earnings up to a $1,300 limit, increasing by $100 each year through 2017.

As part of a solution to restore the system to sustainable solvency, the President has also embraced the idea of indexing the future benefits of the highest wage workers to inflation while providing for a higher rate of benefit growth for lower-wage workers. Benefits for lower-wage workers would be tied to wage growth as under current law, ensuring that their benefits would grow faster than the poverty line. Progressive indexing coupled with voluntary personal retirement accounts will provide future seniors with real money and real security instead of the current system's unfunded promises.

Preventing Waste, Fraud, and Abuse by Improving Program Integrity

Program integrity efforts are designed to ensure that only eligible individuals receive benefits, and that they receive the correct benefit. As part of these efforts, the Social Security Administration (SSA) reviews the eligibility status of Disability Insurance (DI) and Supplemental Security Income

Continuing Disability Reviews Initiated in 2005 Deliver Program Savings



Source: Annual Report of Continuing Disablility Reviews, Social Security Administration, 2005.

(SSI) recipients. Progress has been made on reducing waste, fraud, and abuse in these programs. However, it is estimated that in 2005, improper payments, representing both overpayments and underpayments, in the Old-Age and Survivors Insurance, DI, and SSI programs totaled $6.3 billion. The Budget increases funding for Continuing Disability Reviews (CDRs) and SSI redeterminations, which assess whether the beneficiary still meets the requirements of the DI and SSI programs. The President's budgets have requested this funding since 2002, the last year SSA had dedicated funding for this program integrity effort. Without this funding, SSA was unable to fight waste, fraud, and abuse as aggressively as possible. It is estimated that SSA's increased funding to fight fraud and abuse will save an additional $2 billion across multiple programs. SSA generates savings of $10 for each $1 spent on CDRs. SSA expects CDRs conducted in 2005 to yield more than $5 billion in program savings, including $4.2 billion in the first 10 years, as shown in the chart, and $1.3 billion after the 10-year window.

SSA is engaged in many other activities to improve payment accuracy. SSI redeterminations help ensure the SSI benefit amount is correct and yield savings of $7 for every $1 spent administering them. SSA is modifying its screening process for SSI redeterminations to more efficiently identify cases requiring a full review. SSA is also expanding a pilot study to conduct electronic matches with financial institutions to make sure that applicants for SSI do not have assets exceeding the SSI limits. In addition, SSA is developing easier ways for SSI recipients to report their wages, including expanded telephone wage reporting.

Improving Disability Insurance

Since its inception in 1956, the Social Security DI program has provided vital disability insurance coverage and benefits to America's workers. Over the past 50 years, DI has helped roughly 20 million disabled workers, as well as their dependents, cope with the loss of income due to severe disability.

In 2006, SSA significantly revised the disability determination process to increase accuracy, consistency, and timeliness. The new process was rolled out in the Boston region in August 2006, and builds upon SSA's electronic disability claims tool. Changes to the disability determination process will greatly improve the quality of service SSA provides to millions of disabled workers and their families. While the disability determination process has been placed on a sound course, the program's fiscal health is a growing concern. DI outlays have grown as a percentage of all Federal budget outlays from about 2.1 percent in 1989 to an estimated 3.6 percent in 2007. The Budget projects DI outlays will continue to increase as a percentage of the Federal budget, along with escalating annual cash deficits.

The 2008 Budget includes a proposal to highlight with a "funding warning" the escalating and persistent fiscal problems facing DI. If SSA's actuaries project a negative DI cash flow that is more than 10 percent of program cost for four consecutive years in the upcoming 10 years, the Board of Trustees will issue the warning in the annual Trustees Report. Issuance of a DI funding warning would require the President to transmit to the Congress proposed legislation to respond to the warning within 15 days after the date of the next Budget submission; the Congress would then consider this legislation. The analysis of DI's budgetary impact will safeguard an important source of disability insurance while promoting sound fiscal policy.

Helping Identify Unauthorized Workers

SSA helps employers verify that employees have provided accurate Social Security Numbers and are authorized to work in the United States through several voluntary programs. SSA participated in 78 million employee verifications in calendar year 2006, up from 67 million in calendar year 2005.

Employers in all 50 States may participate in the Basic Pilot program, an ongoing voluntary program in which SSA assists the Department of Homeland Security (DHS) in enabling employers to verify the employment eligibility of new hires. As of December 2006, DHS and SSA had signed agreements with over 12,000 employers, representing approximately 47,000 employer sites. Since October 2006, SSA has received an average of 200,000 Basic Pilot verification requests a month.

Enhancing Service to the Public through Productivity Gains

In 2006, SSA made payments to more than 53 million people each month. Further, SSA served approximately 42 million visitors to its more than 1,300 field offices in communities across America, processed 3.8 million applications for retirement and survivors benefits, and processed 2.5 million applications for disability benefits. In addition, SSA handled more than 59 million 800–number transactions and processed more than 2.1 million electronic transactions, such as applying for benefits, changing direct deposit or address information, requesting replacement Medicare cards, and requesting proof of income letters.

Based on the agency's proven track record, the expected rate of improvement in productivity assumed for 2008 in the Budget is two percent. Increased productivity enables SSA to provide a wider variety of services with fewer resources than would otherwise be required. SSA has an impressive track record in increasing agency-wide productivity. From 2001 to 2006, productivity climbed an average of 2.5 percent per year, for a total gain of 13.1 percent since 2001. SSA continually evaluates its business processes and invests heavily in its information technology systems to ensure that these improvements continue.

Social Security Administration

(In millions of dollars)

	2006 Actual	Estimate 2007	Estimate 2008
Spending			
Discretionary Budgetary Resources:			
Limitation on Administrative Expenses (LAE) base [1, 2]	9,109	9,176	9,597
Office of the Inspector General	91	91	95
Research and Development	20	20	20
Total, Discretionary budgetary resources	9,220	9,287	9,712
Memorandum: Budget authority from enacted supplementals	*38*	—	—
Total, Discretionary outlays	9,286	9,284	9,609
Mandatory Outlays:			
Old-age, Survivors, and Disability Insurance [3]	549,974	581,961	607,768
Supplemental Security Income	37,384	36,939	41,789
Special Benefits for Certain World War II Veterans	10	10	10
Offsetting Collections	–3,442	–3,173	–2,902
Legislative proposal	—	—	8
Total, Mandatory outlays	583,926	615,737	646,673
Total, Outlays	593,212	625,021	656,282

[1] The LAE account includes funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for services that support the Medicare program, including implementation of Medicare Reform.

[2] For 2006, the LAE base does not include a $10 million cash refund, which increased SSA's budgetary resources, but did not increase SSA's new budget authority.

[3] In 2006, Treasury refunded the OASI and DI trust funds by $5,651 million due to overpayment of voluntary income tax witholding. This did not impact beneficiary payments. The mandatory outlay total does not include this refund.

SUMMARY TABLES

Table S–1. Budget Totals

(Dollar amounts in billions)

	2006	2007	2008	2009	2010	2011	2012
Budget Totals:							
Receipts	2,407	2,540	2,662	2,798	2,955	3,104	3,307
Outlays	2,655	2,784	2,902	2,985	3,049	3,157	3,246
Deficit(–)/Surplus(+)	–248	–244	–239	–187	–94	–54	+61
Gross Domestic Product (GDP)	13,061	13,761	14,515	15,306	16,112	16,938	17,786
Budget Totals as a Percent of GDP:							
Receipts	18.4%	18.5%	18.3%	18.3%	18.3%	18.3%	18.6%
Outlays	20.3%	20.2%	20.0%	19.5%	18.9%	18.6%	18.3%
Deficit(–)/Surplus(+)	–1.9%	–1.8%	–1.6%	–1.2%	–0.6%	–0.3%	+0.3%

Table S–2. Discretionary Funding by Category

(Net budget authority; dollar amounts in billions)

	2006	2007	2008	Change from 2007	
	Actual	Current Law[1]	Request	Dollar	Percent
Base Discretionary:					
Security Funding[2]	474.2	500.4	553.9	+53.5	10.7%
Non-Security Funding	369.1	372.4	375.9	+3.6	1.0%
Total, Discretionary	**843.4**	**872.8**	**929.8**	**+57.0**	**6.5%**
Enacted Supplemental and Emergency Funding:					
Global War on Terror	120.4	70.0			
Hurricane Response	24.7	0.2			
Pandemic Influenza Preparedness	6.1	—			
Border Security and Other	2.2	1.8			
Total, Enacted	**153.3**	**72.0**			
Requested Supplemental and Emergency Funding:					
Global War on Terror		99.6	145.2		
Hurricane Response		3.4	—		
Total, Requested		**103.0**	**145.2**		

Discretionary Outyears

(Net budget authority in billions of dollars)

	2009	2010	2011	2012
Base Discretionary:				
Security Funding[3]	581.1	597.0	604.6	615.0
Non-Security Funding[4]	379.7	383.4	387.3	391.2
Total, Discretionary	**964.7**	**980.4**	**991.9**	**1,006.2**
Supplemental and Emergency Funding:				
Global War on Terror	50.0			

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[1] Base funding levels are equal to the amounts enacted in the 2007 Department of Defense and Homeland Security Acts with other Government operations equal to the estimated full-year funding levels provided by P.L. 109-289, Division B, as amended. These levels are adjusted to reflect the current congressional discretionary topline of $872.8 billion, with the funding difference allocated among the categories.

[2] This category is comprised of funding for the Department of Defense, homeland security activities Government-wide (see Table S-4), and funding for international affairs (Function 150).

[3] Department of Defense levels are consistent with the Future Years Defense Plan, and the homeland security levels are consistent with the Future Years Homeland Security Plan.

[4] These amounts exclude the budgetary effects of the Administration's reauthorization proposal of the Federal Aviation Administration (FAA). That proposal would transform the current tax-financing system for FAA to a cost-based user-fee system. For more information, see the Transportation chapter in this volume and related sections in the *Appendix* and *Analytical Perspectives* volumes of the Budget. If this proposal were enacted, the Administration would adjust its discretionary cap proposal downward in these years to reflect the offsetting collections that would result from this user-based fee system.

Table S–3. Discretionary Funding by Major Agency

(Net budget authority in billions of dollars)

Agency	2006	2007		2008
	Actual	Request	Current Law[1]	Request
Agriculture	21.1	19.7	19.6	20.2
Commerce	6.4	6.1	5.6	6.6
Defense	410.7	439.3	429.6	481.4
Education	56.5	54.4	56.0	56.0
Energy	23.6	23.6	22.8	24.3
Health and Human Services	69.1	67.6	69.1	69.3
Homeland Security	30.7	30.9	32.0	34.3
Housing and Urban Development	34.1	33.6	34.7	35.2
Interior	10.8	10.5	10.3	10.6
Justice	21.1	19.5	19.4	20.2
Labor	11.3	10.9	11.7	10.6
State and Other International Programs	30.2	33.9	28.7	35.0
Transportation	14.6	13.2	10.7	12.1
Treasury	11.4	11.6	11.4	12.1
Veterans Affairs	32.9	35.7	33.2	39.4
Corps of Engineers	5.3	4.7	4.7	4.9
Environmental Protection Agency	7.6	7.3	7.5	7.2
Executive Office of the President	0.3	0.3	0.3	0.3
Judicial Branch	5.3	5.9	5.3	6.1
Legislative Branch	3.8	4.3	3.7	4.4
National Aeronautics and Space Administration	16.3	16.8	16.2	17.3
National Science Foundation	5.6	6.0	5.6	6.4
Small Business Administration	0.5	0.6	0.4	0.5
Social Security Administration	7.4	7.9	7.6	7.9
Other Agencies	6.7	6.7	6.5	7.5
Total, Discretionary Spending	**843.4**	**871.0**	**852.8**	**929.8**

Note: Amounts exclude enacted and requested supplemental and emergency funding.

[1] Funding levels are equal to the amounts enacted in the 2007 Department of Defense and Homeland Security Acts with other Government operations equal to the estimated full-year funding levels provided by P.L. 109-289, Division B, as amended.

Table S–4. Homeland Security Funding by Agency

(Budget authority in millions of dollars)

	2006		2007		2008	
	Actual	Supplemental/ Emergency	Current Law[1]	Supplemental/ Emergency[2]	Request	Supplemental/ Emergency[2]
Homeland Security Funding: [3]						
Agriculture	598	—	523	—	718	—
Commerce	181	—	1,193	—	219	—
Defense (DOD)	16,477	1,031	16,538	—	17,465	—
Energy	1,701	—	1,695	—	1,833	—
Health and Human Services	4,352	—	4,313	—	4,424	—
Homeland Security	25,156	1,416	26,876	1,816	29,671	223
Justice	2,996	30	3,090	96	3,331	85
State	1,107	—	1,239	—	1,406	—
Treasury	114	1	109	3	117	—
Transportation	182	—	179	—	200	—
Veterans Affairs	299	—	245	—	270	—
Environmental Protection Agency	129	—	133	—	153	—
General Services Administration	99	—	74	—	42	—
Intelligence Community Management Account	56	—	56	—	58	—
National Aeronautics and Space Administration	213	—	199	—	194	—
National Science Foundation	344	—	344	—	375	—
Nuclear Regulatory Commission	79	—	66	—	69	—
Smithsonian Institution	83	—	80	—	93	—
Social Security Administration	176	—	194	—	217	—
Other Agencies	296	—	256	—	256	—
Total, Homeland Security Funding	**54,638**	**2,478**	**57,402**	**1,915**	**61,111**	**308**
Less, Defense-Military (DOD)	−16,477	−1,031	−16,538	—	−17,465	—
Less, Mandatory Homeland Security Funding[4]	−2,257	—	−3,489	—	−2,290	—
Less, Discretionary Fee-Funded Activities	−3,514	—	−4,397	—	−4,986	—
Net Non-DOD Discretionary Homeland Security	**32,390**	**1,447**	**32,978**	**1,915**	**36,370**	**308**

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[1] Funding levels are equal to the amounts enacted in the 2007 Department of Defense and Homeland Security Acts with other levels equal to the estimated full-year funding levels provided by P.L. 109-289, Division B, as amended.

[2] Includes $1.7 billion in funding enacted in the 2007 Homeland Security and Defense Acts. 2007 and 2008 also include an additional $0.2 billion and $0.3 billion, respectively, in the Administration's pending supplemental requests for the Global War on Terror.

[3] For more detail on homeland security funding, consult the Homeland Security Funding Analysis chapter in the *Analytical Perspectives* volume of the Budget. Dollar amounts in this table are rounded to the nearest million at the account level, which accounts for any discrepancies with the *Analytical Perspectives* chapter.

[4] Mandatory homeland security programs include $1 billion from anticipated spectrum auction receipts provided in the Deficit Reduction Act of 2005 for the Department of Commerce to make grants to public safety agencies for communications interoperability purposes.

Table S–5. Mandatory Proposals

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Mandatory Proposals, including Savings and Augmentations:								
Agriculture:								
Reauthorize Farm Bill	—	500	500	500	500	500	2,500	5,000
Reauthorize Food Stamp Program:								
Restrict Food Stamp Categorical Eligibility	—	−63	−132	−136	−139	−141	−611	−1,360
Exclude retirement accounts from Food Stamp asset test	—	44	89	138	141	144	556	1,323
Exclude special military pay from Food Stamp income test	—	1	1	1	1	1	5	10
Food Safety and Inspection Service User Fees	—	−96	−98	−100	−102	−104	−500	−1,053
Grain Inspection, Packers and Stockyards Administration User Fees	—	−22	−22	−23	−23	−24	−115	−242
Crop Insurance User Fee	—	—	−15	−15	−15	−15	−60	−135
Animal Welfare Fee	—	−9	−13	−13	−14	−14	−63	−142
Total, Agriculture	—	355	310	352	349	347	1,712	3,401
Defense:								
Increase National Defense Strategic Materials Stockpile Sales	—	−69	−145	−198	−145	−25	−582	−583
Education:								
Reform the Federal Student Aid Programs:								
Increase the Pell Grant Maximum Award to $5,400 over Five Years	—	532	2,375	3,256	4,133	5,039	15,335	43,058
Increase Academic Competitiveness Grant awards by 50 percent	—	72	308	373	317	8	1,078	1,078
Increase Aggregate Loan Limits and Annual Limits for Undergraduate Third-Year and Beyond Students	—	68	151	187	205	259	870	2,550

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total 2008–2012	Total 2008–2017
Reduce Lender Subsidy Payments by 50 basis points	—	–688	–2,165	–2,558	–2,792	–2,986	–11,189	–29,494
Increase Lender Risk Sharing and Improve Program Efficiency	—	–776	–160	–175	–189	–202	–1,502	–2,715
Increase Lender Consolidation Fee	—	–56	–159	–186	–210	–234	–845	–2,309
Recall Federal Perkins Loan Revolving Funds	—	–419	–498	–713	–814	–779	–3,223	–6,358
Adjust Guaranty Agency Default Retention Rates	—	–1,370	–173	–188	–205	–217	–2,153	–3,454
Adopt Unit Cost Basis for Guaranty Agency Fees	—	–1,018	–37	–53	–58	–56	–1,222	–1,572
Other Student Loan Reforms	—	2	3	–12	–22	–64	–93	–913
Net impact	—	–3,653	–355	–68	364	768	–2,944	–128
Energy:								
Repeal Oil and Gas Research and Development Program	—	–20	–40	–50	–50	–50	–210	–460
Health and Human Services (HHS):								
Adopt Medicare Reforms	—	–4,696	–9,113	–13,077	–17,463	–21,695	–66,044	–252,432
Medicaid/State Children's Health Insurance Program (SCHIP):								
Adopt Medicaid Reforms	—	–1,925	–2,170	–2,385	–2,680	–2,850	–12,010	–29,090
Augment Medicaid	35	885	205	—	—	—	1,090	1,090
Reauthorize SCHIP	—	710	1,095	620	890	845	4,160	9,680
Net Impact	35	–330	–870	–1,765	–1,790	–2,005	–6,760	–18,320
Reduce Social Services Block Grant	—	—	–425	–495	–500	–500	–1,920	–4,420
Temporary Assistance for Needy Families (TANF)	—	—	240	296	309	326	1,171	2,768
Title V Abstinence Education Program	5	25	44	49	50	50	218	468
Food and Drug Administration Re-Inspection and Export Certification Fees	—	–27	–28	–28	–29	–30	–142	–302

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total 2008–2012	Total 2008–2017
Foster Care District of Columbia Federal Medical Assistance Percentage Rate	—	5	5	6	5	6	27	62
Foster Care Child Welfare Program Option	—	8	5	–4	44	–47	6	–1
Child Support Enforcement	—	5	8	6	1	–1	19	4
Total, HHS	40	–5,010	–10,134	–15,012	–19,373	–23,896	–73,425	–272,173
Housing and Urban Development (HUD):								
Ginnie Mae Premium Increase	—	–46	–46	–46	–46	–46	–230	–460
Government-Sponsored Enterprises Oversight Fee	—	–6	–6	–6	–6	–6	–30	–60
Total, HUD	—	–52	–52	–52	–52	–52	–260	–520
Interior:								
Arctic National Wildlife Refuge Lease Bonuses:								
State of Alaska's Share:								
Receipts	—	—	–3,502	–2	–503	–3	–4,010	–4,025
Expenditures	—	—	3,502	2	503	3	4,010	4,025
Federal Share:								
Receipts	—	—	–3,502	–2	–503	–3	–4,010	–4,025
Net Impact	—	—	–3,502	–2	–503	–3	–4,010	–4,025
Match National Park Centennial Challenge Fund Gift Receipts	—	20	55	80	100	100	355	855
Return to Net Receipts Sharing	—	–41	–47	–46	–44	–49	–227	–447
Amend Bureau of Land Management (BLM) Federal Land Sale Authority	—	–5	–28	–40	–70	–44	–186	–334
Repeal Energy Policy Act Fee Prohibition and Mandatory Permit Funds	—	–36	–37	–38	–36	–37	–184	–309
Recover Pick-Sloan Project Cost	—	–23	–23	–23	–23	–23	–115	–230
Implement Friant Settlement	—	14	17	17	17	17	82	167

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Eliminate BLM Range Improvement Fund	—	–7	–10	–10	–10	–10	–47	–97
Require Upfront Payment of Coal Bonus Bids	—	–2	–121	–115	–54	–134	–426	4
Total, Interior	—	–80	–3,696	–177	–623	–183	–4,758	–4,416
Labor:								
Reform Pension Benefit Guaranty Corporation Premiums	—	—	–1,390	–1,387	–1,400	–1,295	–5,472	–10,569
Unemployment Insurance Integrity Proposal[1]	—	—	–484	–494	–351	–355	–1,684	–3,619
Reform Federal Employees' Compensation Act	—	–9	–23	–29	–33	–43	–137	–493
Reauthorize Trade Adjustment Assistance	—	—	6	18	24	25	73	123
Total, Labor	—	–9	–1,891	–1,892	–1,760	–1,668	–7,220	–14,558
Treasury:								
Payment Transaction Integrity	—	–273	–281	–290	–298	–306	–1,448	–3,105
Extend the Rum Carryover for Puerto Rico	—	76	26	—	—	—	102	102
Debt Collection: Eliminate the 10-year Statute of Limitations on Non-tax Debt owed to Federal Agencies	—	–11	–6	–6	–6	–6	–35	–65
Total, Treasury	—	–208	–261	–296	–304	–312	–1,381	–3,068
Veterans Affairs:								
Pharmacy Co-Payments	—	–311	–304	–306	–307	–342	–1,570	–3,352
Income-Based Medical Care Enrollment Fee	—	—	–138	–134	–129	–125	–526	–1,094
Third-Party Insurance Co-Payment Offset	—	–44	–44	–44	–43	–43	–218	–421
Total, Veterans Affairs	—	–355	–486	–484	–479	–510	–2,314	–4,867

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total 2008–2012	Total 2008–2017
Army Corps of Engineers:								
Additional Recreation User Fees, Lease Receipts, and Contributions:								
Receipts	—	−7	−10	−13	−16	−19	−65	−192
Spending	—	—	7	10	13	16	46	164
Net effect	—	−7	−3	−3	−3	−3	−19	−28
Commodity Futures Trading Commission:								
User Fees	—	−86	−89	−92	−95	−99	−461	−1,009
Environmental Protection Agency:								
Pesticide and Pre-Manufacturing Notification fees	—	−70	−65	−68	−74	−65	−342	−682
Federal Communications Commission (FCC):								
Spectrum License Fee Authority	—	−50	−150	−300	−300	−400	−1,200	−3,628
Auction Prospective Ancillary Terrestrial Component Spectrum	—	−150	−150	−150	−150	−150	−750	−1,500
Extend Spectrum Auction Authority	—	—	—	—	—	−200	−200	−1,200
Auction Domestic Satellite Spectrum	−130	−252	−105	−100	−100	−75	−632	−690
Eliminate Telecommunications Development Fund	—	−5	−6	−7	−7	−7	−32	−67
Total, FCC	−130	−457	−411	−557	−557	−832	−2,814	−7,085
Office of Personnel Management (OPM):								
Federal Employees Health Benefits Program Proposals	—	−38	−140	−240	−318	−382	−1,118	−3,595
Improve Equity and Administration of the Federal Retirement System	—	3	8	11	14	17	53	162
Replace Non-Foreign Cost of Living Adjustment with Locality Pay	—	−1	−1	−1	1	4	2	109
Total, OPM	—	−36	−133	−230	−303	−361	−1,063	−3,324

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Social Security Administration:								
Temporarily Extend Length of Time-Limited Supplemental Security Income Eligibility for Refugees	—	56	55	55	—	—	166	166
Total, Mandatory Proposals, including Savings and Augmentations	**−90**	**−9,700**	**−17,396**	**−18,773**	**−23,106**	**−26,940**	**−95,915**	**−309,334**
Social Security Personal Accounts (Off-Budget)	—	—	—	—	—	29,348	29,348	637,441
Outlay Effects of Tax Proposals: [1]								
Improve the Health Coverage Tax Credit	—	4	10	12	14	15	55	139
Child Tax Credit:								
Clarify uniform definition of a child	—	−55	−59	−75	−71	−72	−332	−785
Reduce computational complexity of refundable child tax credit	—	—	−375	−388	−400	−417	−1,580	−3,773
Earned Income Tax Credit (EITC):								
Clarify uniform definition of a child	—	−127	−137	−174	−165	−169	−772	−1,824
Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigration status	—	−210	33	17	17	14	−129	−104
Provide a flat $15,000 deduction for family coverage ($7,500 for individual coverage) for those with and who purchase health insurance	—	—	231	4,629	4,705	4,715	14,280	37,886
Total, Outlay Effects of Tax Proposals	—	−388	−297	4,021	4,100	4,086	11,522	31,539

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Other Mandatory Proposals and Indirect Effects:								
Transfer of Royalty Oil to the Strategic Petroleum Reserve	—	—	—	903	—	—	903	10,873
Disability Insurance Impact of Increased Program Integrity Efforts	—	–17	–124	–360	–586	–634	–1,721	–4,536
Supplemental Security Income Impact of Increased Program Integrity Efforts	—	–14	–385	–856	–1,061	–355	–2,671	–3,352
Enforce Windfall Elimination Provision / Government Pension Offset (off-budget)	—	—	—	—	–142	–311	–453	–2,531
Require Full-time Attendance for Child's Social Security Benefits at Age 16 (off-budget)	—	–11	–87	–157	–163	–169	–587	–1,551
Replace Disability Insurance/Worker's Comp Offset with Uniform Offset (off-budget)	—	–4	–32	–77	–139	–218	–470	–1,085
Amend Federal Employee Health Benefits Program Statute	—	27	89	147	196	230	689	2,163
Unemployment Insurance Integrity Proposal [1]	—	—	–58	–122	–126	–130	–436	–1,184
National Park Centennial Challenge Fund (spending of gift receipts) [1]	—	20	55	80	100	100	355	855
Food Stamp Impact of Commodity Supplemental Food Program Elimination	—	44	55	48	44	41	232	396
Impact of Replacing Non-Foreign Cost of Living Adjustment with Locality Pay on Civil Service Retirement and Disability Fund	—	–2	–8	–15	–23	–31	–79	–361
Cash Investment Practices Modernization	—	–10	–10	–10	–10	–10	–50	–100
Federal Housing Administration General and Special Risk Insurance Funds Impact of Mark-to-Market Extension	–9	–13	–16	–16	–15	–7	–67	–76

Table S–5. Mandatory Proposals—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Morris K. Udall Scholarship Fund	2	2	2	2	2	2	10	20
Forest County Safety Net Payments	—	–467	135	118	57	143	–14	—
Correct Trust Accounting Deficiencies in Individual Indian Money Investments	6	—	—	—	—	—	—	—
TANF Impact of Social Services Block Grant Reduction	—	43	50	8	–43	–50	8	—
Black Lung Disability Trust Fund Refinancing:[1]								
Black Lung Disability Trust Fund	—	2,315	–437	–432	–424	–424	598	–3,089
Interest Payments on Repayable Advances	—	–2,315	437	432	424	424	–598	3,089
Net Impact	—	—	—	—	—	—	—	—
Foreign Labor Certification Fee:								
Receipts	—	–65	–65	–65	–65	–65	–325	–650
Spending	—	65	65	65	65	65	325	650
Net effect	—	—	—	—	—	—	—	—
Total, Other Mandatory Proposals and Indirect Effects	–1	–402	–334	–307	–1,909	–1,399	–4,351	–469
Grand Total	**–91**	**–10,490**	**–18,029**	**–15,058**	**–20,910**	**5,098**	**–59,389**	**359,191**
Memorandum:								
Outlay Effects of Tax Extensions Assumed in Baseline:[1]								
Child Tax Credit Extension	—	—	—	—	46	11,937	11,983	70,652
Earned Income Tax Credit: Marriage Penalty Relief	—	—	—	—	–366	1,623	1,257	8,966
Total	—	—	—	—	–320	13,560	13,240	79,618

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[1] Affects both receipts and outlays. Only the outlay effect is shown here. For receipt effects, see Table S-6.

Table S–6. Effect of Proposals on Receipts

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Make Permanent Certain Tax Relief Enacted in 2001 and 2003 (assumed in baseline):								
Dividends tax rate structure	344	683	695	−3,595	−13,789	1,491	−14,515	−89,973
Capital gains tax rate structure	—	—	—	−3,405	−17,477	−7,269	−28,151	−79,059
Expensing for small business	—	—	—	−3,728	−4,947	−3,376	−12,051	−20,158
Marginal individual income tax rate reductions	—	—	—	—	−71,892	−113,251	−185,143	−793,780
Child tax credit [1]	—	—	—	—	−5,265	−21,128	−26,393	−135,380
Marriage penalty relief [1]	—	—	—	—	−5,380	−7,971	−13,351	−41,317
Education incentives	—	—	—	—	−739	−1,336	−2,075	−9,673
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	−156	−1,373	−2,290	−3,067	−26,845	−57,652	−91,227	−442,490
Other incentives for families and children	—	—	—	6	−179	−866	−1,039	−5,341
Total, make permanent certain tax relief enacted in 2001 and 2003	188	−690	−1,595	−13,789	−146,513	−211,358	−373,945	−1,617,171
Tax Incentives:								
Simplify and encourage saving:								
Expand tax-free savings opportunities	—	1,527	3,545	3,023	1,075	−1,314	7,856	−592
Consolidate employer-based savings accounts	—	−80	−120	−132	−141	−150	−623	−1,484
Total, simplify and encourage saving	—	1,447	3,425	2,891	934	−1,464	7,233	−2,076
Encourage entrepreneurship and investment:								
Increase expensing for small business	—	−1,597	−2,180	−1,541	−1,135	−847	−7,300	−10,095
Invest in health care:								
Provide a flat $15,000 deduction for family coverage ($7,500 for individual coverage) for those with and who purchase health insurance [1]	—	—	−31,433	−38,892	−30,843	−20,033	−121,201	5,150
Expand and make health savings accounts (HSAs) more flexible	—	−318	−593	−784	−937	−1,037	−3,669	−10,366
Improve the Health Coverage Tax Credit [1]	—	−1	−3	−4	−5	−5	−18	−51

Table S–6. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Allow the orphan drug tax credit for certain pre-designation expenses	—	—	—	—	—	—	—	–1
Total, invest in health care	—	–319	–32,029	–39,680	–31,785	–21,075	–124,888	–5,268
Provide incentives for charitable giving:								
Permanently extend tax-free withdrawals from IRAs for charitable contributions	—	–120	–255	–235	–171	–147	–928	–1,867
Permanently extend enhanced charitable deduction for contributions of food inventory	—	–44	–96	–106	–116	–127	–489	–1,345
Extend permanently the deduction for corporate donations of computer technology	—	–50	–118	–147	–154	–162	–631	–1,570
Permanently increase limits on contributions of property interests made for conservation purposes	—	–48	–35	–22	–18	–21	–144	–265
Permanently extend basis adjustment to stock of S corporations contributing appreciated property	—	–3	–15	–21	–25	–28	–92	–301
Reform excise tax based on investment income of private foundations	—	–61	–91	–97	–103	–110	–462	–1,163
Repeal the $150 million limitation on qualified 501(c)(3) bonds	—	–2	–3	–9	–13	–14	–41	–104
Repeal certain restrictions on the use of qualified 501(c)(3) bonds for residential rental property	—	–2	–5	–10	–17	–24	–58	–286
Total, provide incentives for charitable giving	—	–330	–618	–647	–617	–633	–2,845	–6,901
Strengthen education:								
Extend permanently the above-the-line deduction for qualified out-of-pocket classroom expenses	—	–18	–180	–183	–185	–188	–754	–1,739
Allow the saver's credit for contributions to qualified tuition programs	—	–63	–163	–176	–189	–200	–791	–1,966
Total, strengthen education	—	–81	–343	–359	–374	–388	–1,545	–3,705
Protect the environment:								
Extend permanently expensing of brownfields remediation costs	61	–244	–400	–352	–342	–331	–1,669	–2,851

Table S–6. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Eliminate the volume cap for private activity bonds for water infrastructure	—	–1	–3	–5	–9	–13	–31	–184
Total, protect the environment	61	–245	–403	–357	–351	–344	–1,700	–3,035
Restructure assistance to New York City for continued recovery from the attacks of September 11th:								
Provide tax incentives for transportation infrastructure	—	–200	–200	–200	–200	–200	–1,000	–2,000
Total, tax incentives	61	–1,325	–32,348	–39,893	–33,528	–24,951	–132,045	–33,080
Simplify the Tax Laws for Families:								
Clarify uniform definition of a child [1]	17	64	48	31	40	15	198	350
Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigration status [1]	—	31	–25	–22	–22	–21	–59	–164
Reduce computational complexity of refundable child tax credit [1]	—	—	—	—	—	—	—	—
Total, simplify the tax laws for families	17	95	23	9	18	–6	139	186
Improve Tax Compliance: [2]								
Expand information reporting	—	232	1,075	1,848	2,488	2,903	8,546	28,849
Improve compliance by businesses	—	143	91	38	21	20	313	421
Strengthen tax administration	—	—	—	1	1	1	3	17
Expand penalties	—	3	5	11	18	20	57	178
Total, improve tax compliance	—	378	1,171	1,898	2,528	2,944	8,919	29,465
Improve Tax Administration and Other Miscellaneous Proposals:								
Implement IRS administrative reforms and extend IRS authority to fund undercover operations [5]	—	—	—	—	—	—	—	—

Table S–6. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields	—	2	14	28	28	23	95	126
Limit related party interest deductions	86	148	155	163	171	180	817	1,859
Repeal excise tax on local telephone service [3]	−552	−463	−148	−74	−74	−74	−833	−1,211
Modify financing of the Airport and Airway trust fund [3]	—	—	−6,407	−6,705	−7,005	−7,326	−27,443	−69,732
Anticipated receipt of donations to the National Park Service through the National Park Centennial Challenge Fund	—	100	100	100	100	100	500	1,000
Transition from the non-foreign COLA to locality pay for employees in non-foreign areas	—	1	2	3	4	5	15	50
Total, improve tax administration and other miscellaneous proposals [2]	−466	−212	−6,284	−6,485	−6,776	−7,092	−26,849	−67,908
Improve Unemployment Insurance:								
Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance [3]	—	—	29	29	−16	−64	−22	−1,469
Extend unemployment insurance surtax [3]	—	1,073	1,542	1,580	1,617	1,633	7,445	1,526
Total, improve unemployment insurance [3]	—	1,073	1,571	1,609	1,601	1,569	7,423	57
Modify Energy Provisions:								
Repeal reduced recovery period for natural gas distribution lines	—	52	88	107	119	106	472	906
Modify amortization for certain geological and geophysical expenditures	—	15	55	81	67	56	274	582
Indirect effect of energy proposals [4]	—	−45	−93	−163	−92	−98	−491	−1,019
Total, modify energy provisions	—	22	50	25	94	64	255	469
Promote Trade:								
Implement free trade agreements and modify other trade-related provisions [3]	—	−241	−502	−760	−994	−1,240	−3,737	−13,072

Table S–6. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2007	2008	2009	2010	2011	2012	Total	
							2008–2012	2008–2017
Extend Expiring Provisions:								
Alternative Minimum Tax relief for individuals	−9,123	−47,922	11,431	—	—	—	−36,491	−36,491
Research & Experimentation (R&E) tax credit	—	−3,221	−7,071	−9,145	−10,601	−11,799	−41,837	−117,309
Work opportunity tax credit	—	−71	−192	−162	−80	−51	−556	−582
First-time homebuyer credit for DC	—	−1	−19	—	—	—	−20	−20
Authority to issue Qualified Zone Academy Bonds	—	−3	−8	−13	−18	−20	−62	−162
Deferral of gains from sales of electric transmission property	−63	−48	−52	−65	−39	5	−199	41
Disclosure of tax return information related to terrorist activity [5]	—	—	—	—	—	—	—	—
Excise tax on coal [3]	—	—	—	—	—	—	—	1,081
Exception for retirement plan distributions provided individuals called to active duty for at least 179 days	−*	−*	−*	−*	−*	−*	−*	−*
Total, extend expiring provisions [3]	−9,186	−51,266	4,089	−9,385	−10,738	−11,865	−79,165	−153,442
Total budget proposals, including proposals assumed in the baseline [3]	−9,386	−52,166	−33,825	−66,771	−194,308	−251,935	−599,005	−1,854,496
Total budget proposals, excluding proposals assumed in the baseline [3]	−9,574	−51,476	−32,230	−52,982	−47,795	−40,577	−225,060	−237,325

*$500,000 or less.

[1] Affects both receipts and outlays. Only the receipt effect is shown here. For the outlay effect, see Table S-5.

[2] "Tax gap"-related proposals.

[3] Net of income offsets.

[4] Indirect effect on receipts of proposed alternative fuels and fuel efficiency standards. These proposals are discussed in the Energy chapter of the *Budget* volume.

[5] No net budgetary impact.

Table S–7. Budget Summary by Category

(In billions of dollars)

	2006	2007	2008	2009	2010	2011	2012
Outlays:							
Discretionary:							
Security	566	622	658	655	617	609	603
Non-security	451	458	456	443	439	436	435
Total, discretionary	1,017	1,080	1,114	1,099	1,056	1,045	1,039
Mandatory:							
Social Security:							
Current program	544	582	608	640	678	717	761
Personal accounts	—	—	—	—	—	—	29
Medicare	325	367	386	409	434	475	482
Medicaid and SCHIP	186	198	209	223	239	257	277
Other	357	318	324	340	361	380	374
Total, mandatory	1,412	1,465	1,527	1,613	1,712	1,829	1,923
Net interest	227	239	261	274	281	284	285
Total outlays	2,655	2,784	2,902	2,985	3,049	3,157	3,246
Receipts	2,407	2,540	2,662	2,798	2,955	3,104	3,307
Deficit(–)/surplus(+)	–248	–244	–239	–187	–94	–54	61
On-budget deficit	–434	–427	–451	–413	–339	–318	–187
Off-budget surplus	186	183	212	226	245	264	248

Table S–8. Receipts by Source—Summary

(In billions of dollars)

	2006 Actual	Estimate					
		2007	2008	2009	2010	2011	2012
Individual income taxes	1,043.9	1,168.8	1,246.6	1,331.1	1,428.3	1,517.3	1,636.6
Corporation income taxes	353.9	342.1	314.9	319.8	325.5	340.6	366.6
Social insurance and retirement receipts	837.8	873.4	927.2	974.2	1,029.3	1,085.7	1,138.8
(On-budget)	(229.4)	(239.2)	(253.1)	(262.8)	(276.0)	(289.9)	(303.4)
(Off-budget)	(608.4)	(634.1)	(674.1)	(711.4)	(753.3)	(795.8)	(835.3)
Excise taxes	74.0	57.1	68.1	63.1	63.6	68.6	71.3
Estate and gift taxes	27.9	25.3	25.7	27.4	21.7	1.7	0.5
Customs duties	24.8	26.8	29.2	30.7	32.7	34.3	35.7
Miscellaneous receipts	45.0	46.7	50.7	52.0	53.6	55.5	57.8
Total receipts	**2,407.3**	**2,540.1**	**2,662.5**	**2,798.3**	**2,954.7**	**3,103.6**	**3,307.3**
(On-budget)	(1,798.9)	(1,906.0)	(1,988.4)	(2,086.9)	(2,201.4)	(2,307.8)	(2,472.0)
(Off-budget)	(608.4)	(634.1)	(674.1)	(711.4)	(753.3)	(795.8)	(835.3)

Table S–9. Comparison of Economic Assumptions

(Calendar years)

	Projections						Average 2007–2012
	2007	2008	2009	2010	2011	2012	
GDP (billions of current dollars):							
2008 Budget	13,946	14,711	15,507	16,316	17,148	18,003	
CBO January	13,805	14,472	15,196	15,923	16,647	17,395	
Blue Chip Consensus January	13,843	14,561	15,323	16,116	16,937	17,805	
Real GDP (chain-weighted): [1]							
2008 Budget	2.7	3.0	3.1	3.0	3.0	2.9	3.0
CBO January	2.3	3.0	3.1	3.0	2.7	2.7	2.8
Blue Chip Consensus January	2.4	3.0	3.1	3.0	2.9	3.0	2.9
Chain-weighted GDP Price Index: [1]							
2008 Budget	2.5	2.4	2.2	2.1	2.0	2.0	2.2
CBO January	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Blue Chip Consensus January	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer Price Index (all-urban): [1]							
2008 Budget	2.1	2.6	2.5	2.4	2.3	2.3	2.4
CBO January	1.9	2.3	2.2	2.2	2.2	2.2	2.2
Blue Chip Consensus January	2.0	2.3	2.3	2.3	2.3	2.4	2.3
Unemployment rate: [2]							
2008 Budget	4.6	4.8	4.8	4.8	4.8	4.8	4.8
CBO January	4.7	4.9	5.0	5.0	5.0	5.0	4.9
Blue Chip Consensus January	4.8	4.9	4.9	4.9	4.9	4.9	4.9
Interest rates: [2]							
91-day Treasury bills:							
2008 Budget	4.7	4.6	4.4	4.2	4.1	4.1	4.4
CBO January	4.8	4.5	4.4	4.4	4.4	4.4	4.5
Blue Chip Consensus January	4.9	4.8	4.7	4.5	4.5	4.6	4.7
10-year Treasury notes:							
2008 Budget	5.0	5.1	5.2	5.3	5.3	5.3	5.2
CBO January	4.8	5.0	5.1	5.2	5.2	5.2	5.1
Blue Chip Consensus January	4.8	5.0	5.2	5.2	5.2	5.3	5.1

Sources: Congressional Budget Office; Blue Chip Economic Indicators, Aspen Publishers, Inc.

January 2007 Blue Chip Consensus forecast for 2007 and 2008; Blue Chip October 2006 long-run extension for 2009—2012.

[1] Year-over-year percent change.

[2] Annual averages, percent.

Table S–10. Federal Government Financing and Debt

(Dollar amounts in billions)

	Actual	Estimate					
	2006	2007	2008	2009	2010	2011	2012
Financing:							
Unified budget deficit (–)/surplus(+)	–248	–244	–239	–187	–94	–54	61
Financing other than borrowing from the public:							
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (–)	–2	–1	*	*	*	1	*
Changes in:[1]							
Treasury operating cash balance (–)	–16	7	—	—	—	—	—
Checks outstanding, etc.[2]	13	—	—	—	—	—	—
Seigniorage on coins	1	1	1	1	1	1	1
Credit net financing disbursements (–):							
Direct loan financing accounts	–5	–11	–17	–15	–18	–19	–20
Guaranteed loan financing accounts	21	–7	–7	–7	–6	–5	–4
Total, financing other than borrowing from the public	11	–10	–23	–21	–23	–23	–24
Total, requirement to borrow from the public	–237	–254	–262	–208	–118	–77	37
Change in debt held by the public	237	254	262	208	118	77	--37
Changes in Debt Subject to Statutory Limitation:							
Change in debt held by the public	237	254	262	208	118	77	–37
Change in debt held by Government accounts	309	302	306	355	382	400	410
Change in other factors	3	*	1	3	2	3	2
Total, change in debt subject to statutory limitation	549	557	568	565	502	480	375
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	8,426	8,982	9,550	10,114	10,614	11,092	11,465
Adjustment for discount, premium, and coverage[3]	–5	–5	–5	–3	–2	*	2
Total, debt subject to statutory limitation[4]	8,420	8,977	9,545	10,111	10,612	11,092	11,467

Table S–10. Federal Government Financing and Debt—Continued

(Dollar amounts in billions)

	Actual	Estimate					
	2006	2007	2008	2009	2010	2011	2012
Debt Outstanding, End of Year:							
Gross Federal debt: [5]							
Debt issued by Treasury	8,426	8,982	9,550	10,114	10,614	11,092	11,465
Debt issued by other agencies	26	26	25	24	24	23	22
Total, gross Federal debt	8,451	9,008	9,575	10,138	10,638	11,115	11,487
Held by:							
Debt held by Government accounts	3,622	3,924	4,230	4,585	4,966	5,366	5,776
Debt held by the public [6]	4,829	5,083	5,345	5,554	5,671	5,748	5,711
As a percent of GDP	37.0%	36.9%	36.8%	36.3%	35.2%	33.9%	32.1%

---

* $500 million or less.

[1] A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding (which is a liability) is also a means of financing a deficit and therefore also has a positive sign.

[2] Besides checks outstanding, includes accrued interest payable on Treasury debt, uninvested deposit fund balances, allocations of special drawing rights, and other liability accounts; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance), other asset accounts, and profit on sale of gold.

[3] Consists mainly of Federal Financing Bank debt (which is not subject to limit), the unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds), and the unrealized discount on Government account series securities.

[4] The statutory debt limit is $8,965 billion, enacted on March 20, 2006.

[5] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are otherwise measured at face value less unrealized discount (if any).

[6] At the end of 2006, the Federal Reserve Banks held $768.9 billion of Federal securities and the rest of the public held $4,060.0 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

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